★ MARKET CORRECTIONS vs. BUSINESS OUTLOOK ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

ARCH 26, 1960 85 CENTS

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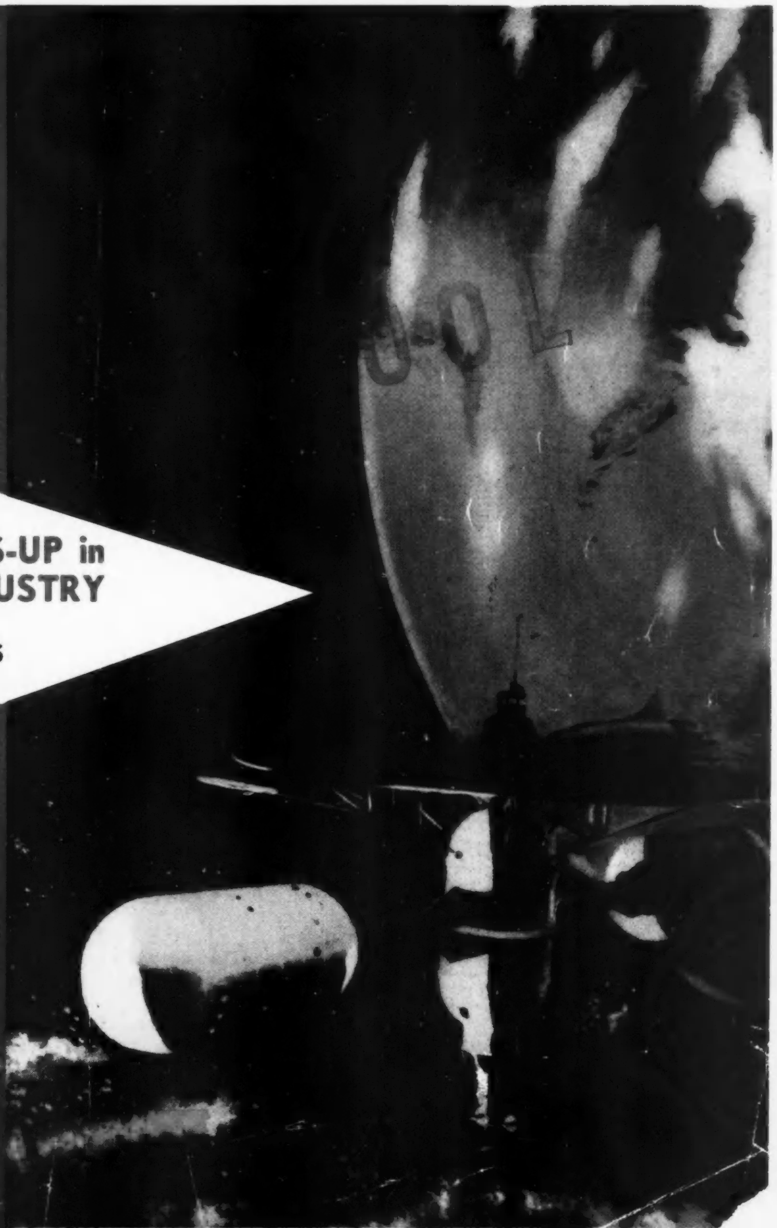

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 106 No. 1 March 26, 1960

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes the Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

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Cover Illustration: Courtesy of Aerojet-General Corp.
Artist—William C. House
Illustration Page 5—Outline of the planned trajectory of Thor-Able rocket, which was fired on March 11 and is designed to orbit around the sun.
Photo Page 32—Courtesy Radio Corp. of America

C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newstands in U. S. and Canada, 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan-American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

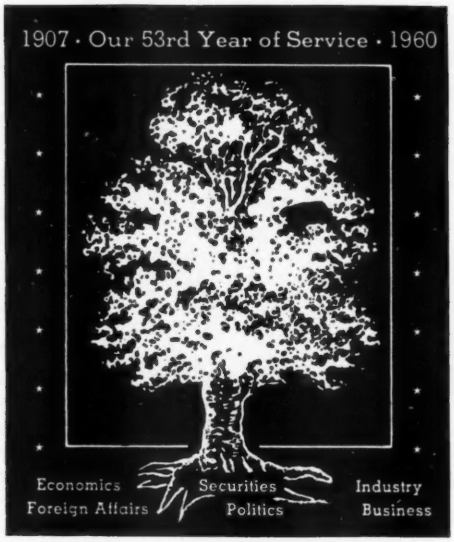
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

OUR AMAZING FREE ENTERPRISE SYSTEM . . . There is no greater illustration of what freedom to work out his own salvation can mean to a man, than is shown by the enormous gain in buying power made by the individual in all classes of society in the United States.

Today, consumer purchasing by citizens in all income brackets has risen to a middle-class level, so that the working man is now able to purchase goods formerly considered luxuries that were within the buying power only of the well-to-do.

If there was any doubt before, regarding the American system, there should be none now, for in a time of uncertainty and slow-down in our economy, consumer buying has held at a high level and shows evidence of entering a rising trend. Three factors are responsible for creating this state of well-being—(1) the high level of wages, often applying to two, three and four members of a family—(2) welfare and unemployment insurance, which helps to sustain buying power—and (3) the greater longevity of our people, which tends to maintain the number of spending units of a large portion of our citizens beyond the age of 65.

Special See [illegible] #70 [illegible] 9 Joh

That this is one of the most important aspects of our economic strength today, is clearly shown by the way in which business has held up, at a time when everyone was expecting a slow-down—a point of view that was intensified by the uncertain stock market and declining prices, which served in a large measure to create the impression that a severe recession was in the making. It is mainly for this reason that sufficient attention was not given to the significance of what can be called our New

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

Middle-Class economy.

In this issue, our story, "Market Correcting Its Own Excesses—Not Forecasting Business Outlook," clarifies the situation, and shows why stock prices may continue to be erratic, in the face of a business recovery, which now appears to be in the making as a result of the vigorous effort by both government and business to recapture our export trade. Such a campaign is already in the works, as pointed out in another story in this issue, "Capital Spending Provides First Major Optimistic Development in Some Time."

As a step in the right direction, expenditures for this purpose will take the form of machinery and equipment to meet the competition of the new and highly modern automated European facilities, rather than to increasing plant capacity. It will bring more efficient cost control to counter challenge of foreign competition in our exports as well as in our home market.

This combination of developments is bound to attract considerable attention from abroad, especially in Asia and Africa, where Soviet propaganda has been challenging the capacity of the United States to maintain its economic leadership under our Democratic system, and where various nations have been on the fence as to the direction in which they would go, whether to follow the economic democracy of the United States or the totalitarian system of the Soviet Union.

WHAT HAPPENED TO THE LABOR CONFERENCE . . . Rome isn't burning, but there seems to be an awful lot of "fiddling" going on in the Nation's Capitol—fiddling which stands in the way of sane solution to future labor-management holocausts which could do more damage to the national economy than was inflicted upon Rome by Nero's abstraction while his capital went up in smoke.

Referred to is the now seemingly lost White House Conference on Labor-Management Relations, first suggested by AFL-CIO President George Meany last November 16, about midway thru the costly steel strike. Correctly, President Eisenhower rejected the Meany proposal until the steel industry—managment and labor alike—had exhausted their efforts under free, collective bargaining.

On January 4, end of the steel strike was announced, marking the close of a 116-day labor stoppage that cost the working man, steel stockholders and the Federal Treasury uncounted billions of dollars. It was January 7 when the President, in his State of the Union Message to the Congress said:

"One of the sharp lessons of this story [the steel strike] is that the potential danger of longer and greater strikes must be met. To insure against such possibilities we must of course depend primarily upon the good common sense of responsibile individuals. It is my intention to encourage regular discussions between management and labor outside the bargaining table arena, *to consider the interest of the public as well as their own mutual interest in, first, the maintenance of industrial peace, price stability incentives for continuous investment, and economic growth. Both the Executive and the Congress will, I know, be watching developments with the keenest interest* . . . It seems almost assured that the United States should recognize the need for, and so earnestly to seek, cooperation among the nations unless we can achieve voluntary, dependable, abiding cooperation among the important segments of our own free society. *Without such cooperation we cannot prosper.*" (*all italics supplied.*)

The President thus "laid it on the line." He asked Congress for no mandate. He just stated facts. By common consent, Labor Secretary Mitchell took over the job of arranging this top-level conference between the tycoons of labor and management, presumably under White House sponsorship. Labor was agreeable, so was management.

In the vernacular, "So, what happened?" Still in the vernacular, "Nothing to date."

Weeks, even months have drifted by, but we have no word from any source that such a conference will be held. Inquiries to the Office of the Secretary of Labor bring the reply that "it is being worked on; the subject is complicated. You do not build a fine watch in thirty minutes, nor do you set up a conference of this gravity in a matter of weeks."

Top figures in the AFL-CIO, including President George Meany, Walter Reuther of the United Automobile Workers, and David J. McDonald, steel workers chieftain, have said they welcome such a conference. Their management counterparts have indicated a similar desire. While the public—footing the labor-management strife costs—genuinely favors the "get together" to end major labor strife.

Rome still doesn't burn, but it is the editorial opinion of this magazine that too much "fiddling" is taking place.

Currently afloat are rumors that the Department of Commerce is "horning in on the deal," that it wants to name the industry members to attend. Other rumors have it that the Secretary of Labor, with Vice Presidential ambitions, wants it to be a "Labor Department show." A third rumor is that the White House itself is afraid that if the "get-together," fails to produce a workable "no strike" program, the Solons will step in with harsh, unworkable legislation.

To all of these, the sensible man can answer only "Bosh!"

Labor, as represented by its highest echelons; management, as represented by its top figures, and the White House, have all said, "Let's sit down and talk it over; let's work out a program, preferably voluntary, which will avert future disastrous labor stoppages. We don't have to rely upon legislation. We can get together as reasonable men, the public interest foremost in our minds, and work out a set of guide lines, unhampered by the whip-lash of national laws."

And there it stands. Everyone, on all sides, is "ready, willing and able" to sit down and seek a sane solution, yet the Secretary of Labor "fiddles."

We, along with millions of others, can only plead, "Lay the fiddle aside; get the differing parties together and let them, as reasonable, patriotic citizens, come up with an answer equitable to labor, management and the bill-paying public."

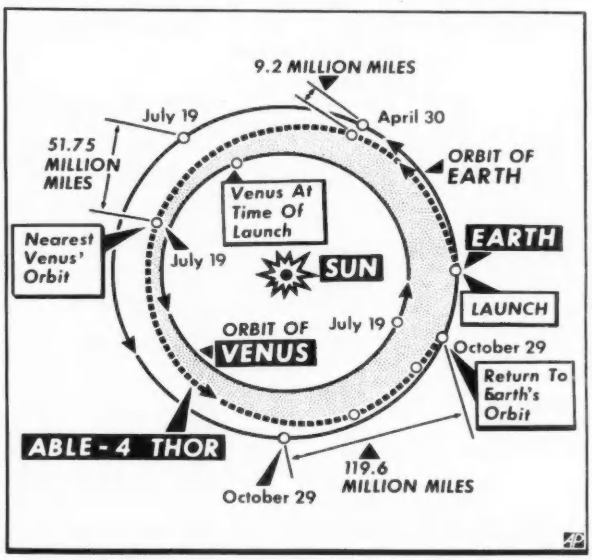
As I See It!

By Charles Benedict

"V" FOR VICTORY

AMERICANS everywhere should be bursting with pride and assurance over our latest accomplishment in outer space exploration, for the launching of Pioneer V into orbit around the sun is a smashing achievement for American science and defense. Following as it does the notable success of Pioneer IV, it clearly shows that we are way ahead of Russia in the field of communication—to such an extent that it puts the USSR in the shade — their propaganda to the contrary.

As a result, just at the time we need it, looking to the Summit Meeting U. S. prestige and our scientific stock will soar to new heights—for the constant "beeps" from a radio transmitter that can be heard from over 50 milion miles in the stratosphere is telling the world that outer space is not and never will be a Russian preserve.



Moreover, it will tell the Communists in no uncertain terms that their boasted superiority is a propaganda dream, and that they had best direct their thoughts toward the ways of peace, since they are not likely to be able to surpass the U.S.A. despite the fact that they started their outer space program years before we entered the race.

The magnitude of our achievement is that for the first time we of the Earth will be able to actually explore our own solar system, and will learn more than we have ever known before about the cosmic radiation that bombards the earth. We will come closer to solving the mystery of magnetic storms that interfere with electrical and radio transmission. We will also acquire greater knowledge about distances in space, refining our measurements so that more accurate systems of navigation can be developed and at the same time prepare for that remote day when man himself takes his first flight into the stratosphere.

It will be some time before we can assay the vast wealth of information to be gleaned, memorized through recording devices and transmitted by the highly sensitive instruments packed into Pioneer V as it traverses new realms of space up to 186 million miles from the earth.

But probably the most vital aspect of Pioneer V is the fact that it has already fortified America's faith in itself—and given us added assurance to meet with equanimity the Russian threats of aggressive power.

Without question, the loud and clear voice of Pioneer V, coming from the vastness of outer space, will deflate the Communist boasts of scientific supremacy, which Mr. Khrushchev has found so useful at various times in shaking Western solidarity, and in influencing the neutrals through fear of how Russia would use her "superior" power.

With the launching of Pioneer V we are piling up real strength for the meeting at the Summit, so that much more may be able to be accomplished than had been anticipated. Our attitude seems to be firming all along the line, with the latest assurance too by Secretary of Defense Gates that the United States not only has the greater striking power but that it also possesses the most effective means of delivering the "knockout" punch.

Maybe that is why things are already going better at the East-West Arms Conference in Geneva—if we are to judge by the new purpose that activates the Western spokesmen. New and old ideas are being advanced with firmness, and for the first time the Russians, to the surprise of everyone, began the third day of talks by requesting more information on the Western disarmament proposals.

This round was clearly won by the United States, for the launching of Pioneer V robbed the Communists of their propagandized boast of scientific leadership, which they have used again and again to claim superiority over the United States on all counts. This, coupled with the decline in Communist prestige that began in Asia, is most likely to produce a new kind of moderation in the pre-Summit talks that augurs well for some concrete results when the heads of governments meet at the conference table.

Market Correcting Its Own Excesses —Not Forecasting Business Outlook

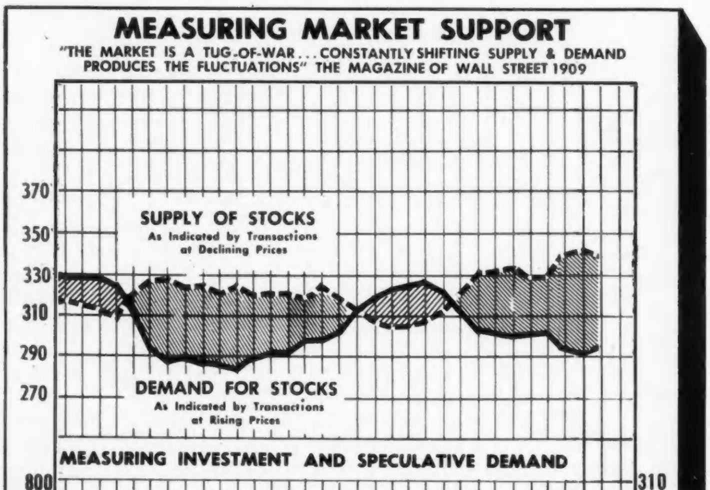
How much help can we expect from "built-in economic stabilizers" to maintain—to boost our economy? What factors of deterioration must be given proper weight in striking a balance when appraising prospects for a sustained level of activity in the second quarter? The need for keen discrimination, with many stocks quoted at excessive prices in relation to earnings — dividend position and outlook — while companies having lucrative operations abroad may merit higher evaluation, where foreign profits are not recorded in financial statements.

By A. T. MILLER

THE age old controversy over validity of a bear market signal and its presumed significance, is attracting greater and greater attention in the light of its evident inadequacy as applied to the modern market. The same is true of the traditional role of the stock market as a gauge to the business outlook, as bewildered observers who saw the market going in one direction and business in another can readily testify.

For generations the behavior of stock prices has been credited with forecasting business trends, since the collective opinions expressed in the marketplace have been considered as representing the best judgment of those in-the-know on the industrial and corporate front. But various other factors, including the value of the dollar at home and abroad, have tied stock prices more to the money market than to the business trend in recent years.

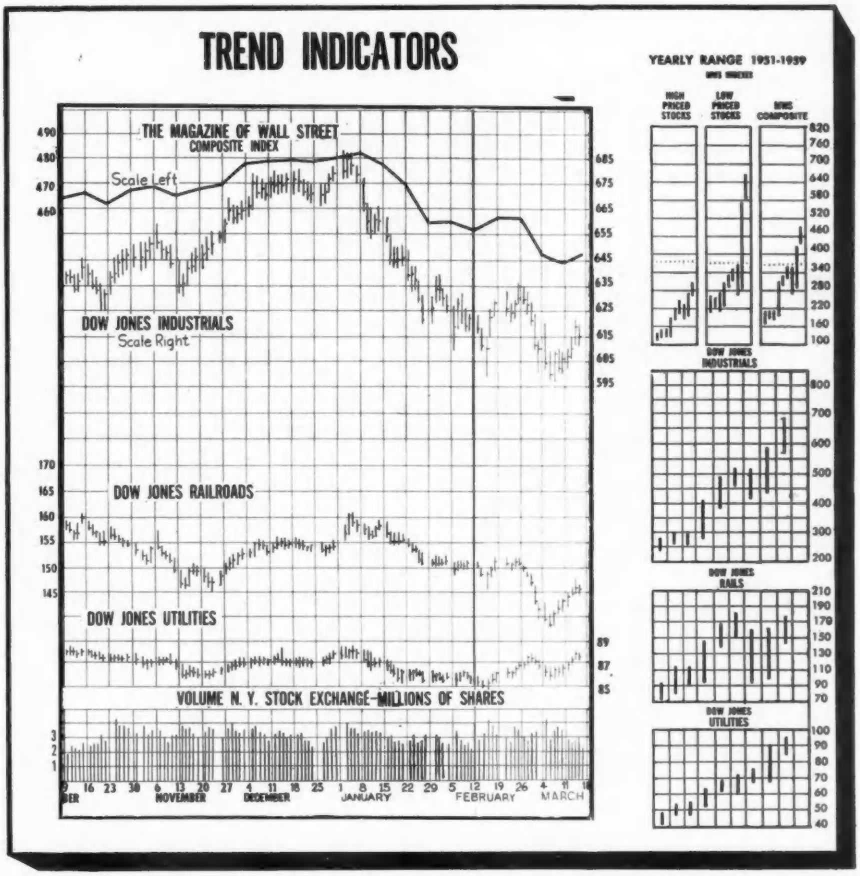
At any rate, it is now clearly evident that the stock market has not been forecasting a business setback of any consequence. That the retreat from the all-time peak in early January (or from the high of July-August 1959, as many prefer, undoubtedly was dictated by the necessity for correcting the enthusiastic excesses in appraising the earnings-dividend outlook for market leaders way into the unforeseeable future. Many of these stocks still appear unrealistically high.



The Built-In Stabilizers

One may be justified in wondering why bear market warnings have not precipitated heavier selling, especially the kind of emotional liquidation which has, in the past, occurred under similar circumstances. Many reasons can be cited — and it seems well worth while to consider some of them because they will have an important bearing on trends as the market proceeds with its adjustment to more realistic levels.

► Probably the most important factor currently operative is the conviction that powerful "built-in economic stabilizers" are likely to prevent a sweeping decline in industrial activity. Certainly a depression of the magnitude such as experienced in 1930-33 can at this time be ruled out. Consumer income and purchasing power is at a high level, and is being bolstered by unemployment insurance — with Federal and State aid for the needy doing their part. *In fact, in the three post-war recessions it*



should be noted personal income was maintained at a relatively high level, even while industrial production was declining.

► With the benefit of cost-of-living escalator provisions, labor contracts provided for wage increases in numerous industries even though the number of employees becoming idle tended to rise. Furthermore, it should be remembered that wages have risen so substantially since the war that many families have continued to improve their living standards. The so-called middle class has been greatly enlarged. In fact, economists have pointed out that the laboring group in the United States has become the nouveau rich!

► The government too, under the Eisenhower Plan, is now taking steps to foster overseas trade, which should have a significant effect on industrial activity, produce more jobs and help to create a favorable international balance of trade for the United States, stop the outflow of gold and improve the position of the dollar abroad.

Great Britain, West Germany and, to a lesser extent, France, have enjoyed a resurgence in industrial activity in recent years through enlargement of exports to this country. The boom in Germany reached such proportions that the Bonn Government took steps to check expansion by raising taxes.

This flooding of our markets with foreign goods is now going to be met by capital spending for ultra-modern automatic machinery that should not only equal, but top the improved manufacturing techniques abroad, and should now enable us to compete more advantageously.

(I doubt whether that section of the Eisenhower proposal which provides for guarantee of foreign credits and financing of promotion abroad will go through, because it could evoke severe reprisals both economically and politically that would upset our program for Western solidarity.)

The Other Side of the Coin

Yet, despite the constructive factors above referred to, there is a cautionary note underlying market activity, reflecting an uncertain state of mind regarding the outlook. You can call it a "feeling" that the diverse elements indicate there is no boom ahead—rather, that the most we can expect is a degree of stability that can be developed into a base from which to rise.

At the moment production figures show a drop in steel production — cut-backs in automobile output — and slower activity in residential construction. If you accept the thesis that "built-in economic stabilizers" are likely to prove effective, you will conclude that this slackening will not reach drastic proportions.

Seasonally, industrial production dropped a point in the Federal Reserve Board's index last month, although it still remained at very high levels.

For some years now there has always been more or less of a slow-down in the first and second quarters, with business activity picking up in the third quarter, and accelerating in the fourth quarter to the end of the year. But we are facing an entirely new set of conditions, as we have pointed out again and again in the market outlook and various feature stories, and this is responsible for the indecision evident in today's market.

The inflationary pressures have slowed down. The great period of speculative activity during the war, after the war and since, has brought considerable change in our economy and the forces that have come into being are producing an entirely new set of circumstances, while the old yardsticks have not been revised sufficiently to adequately measure the shift and change. One thing is clear, however, and that is that prices of many issues are selling way beyond their value on their current earnings—dividend position and outlook, and are bound to reach more realistic levels. — Monday, March 21.

CAPITAL SPENDING Provides First Major OPTIMISTIC DEVELOPMENT
—In Some Time

By HOWARD NICHOLSON

- **Less emphasis on plant — and more on automatic equipment — as industry fights back import flood**
- **Where wage differential abroad has become less important than high level automation**
- **Gains for various sectors of our economy in all-out competitive struggle**
- **Significant change for machinery makers under new order and backlog evaluation**
- **Improvement in second quarter? — what of third and fourth quarters?**

THE surprisingly large official estimate of new plant and equipment spending for this year, issued on March 11, puts a new face on the business outlook and provides the first major optimistic development in quite some time.

Capital expenditures this year, according to the combined SEC-Commerce Department estimate, will total $37,016 million or nearly 14 percent more than last year's total of $32,543 million and slightly more than the all-time record high of $36,964 million that was reached in 1957.

Prior to the issuance of the official estimate, it had been expected rather generally that business spending for plant and equipment this year would be some 8 to 10 percent larger than last year, or about enough to be a sustaining influence to the economy but no real stimulus.

Now, indicated capital spending of $37 billion, and analyses of how this huge sum will be spent, suggest very strongly that business activity in the second

New Plant and Equipment Expenditure (Million Dollars)

	Total		Manufacturing		Mining		Transportation		Public Utilities		Commercial, etc. [1]	
	Million $	Percent Charge	Million $	Percent Charge	Million $	Percent Charge	Million $	Percent Charge	Million $	Percent Charge	Million $	Percent Charge
1947	20,612	+38.8	8,704	+28.2	692	+61.7	2,184	+44.8	1,540	+94.4	7,492	+40.5
1948	22,060	+ 7.0	9,136	+ 5.0	880	+27.2	2,604	+19.2	2,544	+65.2	6,900	— 7.9
1949	19,284	—12.6	7,148	—21.8	792	—10.0	2,240	—14.0	3,124	+22.8	5,980	—13.3
1950	20,604	+ 6.8	7,492	+ 4.8	708	—10.6	2,324	+ 3.8	3,308	+ 5.9	6,776	+13.3
1951	25,644	+24.5	10,852	+44.8	928	+31.1	2,964	+27.5	3,664	+10.8	7,236	+ 6.8
1952	26,492	+ 3.3	11,632	+ 7.2	984	+ 6.0	2,896	— 2.3	3,888	+ 6.1	7,092	— 2.0
1953	28,320	+ 6.9	11,908	+ 2.4	984	0	2,876	— 0.7	4,553	+17.1	8,004	+12.9
1954	26,828	— 5.3	11,040	— 7.3	976	— 0.8	2,368	—17.7	4,220	— 7.3	8,228	+ 2.8
1955	28,700	+ 7.0	11,440	+ 3.6	956	— 2.0	2,524	+ 6.6	4,308	+ 2.1	9,472	+15.1
1956	35,080	+22.2	14.950	+30.7	1,240	+29.7	2,964	+16.6	4,896	+13.6	11,048	+16.6
1957	36,964	+ 5.4	15,960	+ 6.8	1,244	+ 0.3	3.168	+ 7.6	6,196	+26.6	10,400	— 5.9
1958	30,528	—17.4	11,432	—28.4	940	—24.4	2.256	—28.8	6,088	— 1.7	9,812	— 5.7
1959	32,543	+ 6.6	12,067	+ 5.6	987	+ 4.6	2,945	+30.5	5,667	— 6.9	10,877	+10.9
1960 Ext.	37,016	+13.7	15,132	+25.4	1,004	+ 1.7	3,159	+ 7.3	6,066	+ 7.0	11,655	+ 7.2

[1]—Including trade, service, finance, communication, and construction.

and third quarters of this year, at least, will be much more "boomy" than the majority of business men and investors has been suspecting.

Hold the Cheers

Before beginning to dance in the street with joy over what we regard as a truly significant reversal of the shorter term business outlook, it is important to bear two facts in mind.

First, it should be noted that something like *a billion dollars of the capital expenditures indicated for this year represents postponement of spending scheduled for last year but delayed as a result of the extremely long steel strike.* The shortage of steel prevented construction projects from being carried forward, hindered machinery manufacturers from making deliveries on schedule, and so on.

Secondly, and we regard this as of much more importance, business men were surveyed for their capital spending intentions in late January and early February. At that time, business confidence had been shaken very little by the decline in the stock market. Weather conditions gave promise of an early Spring. The miserable February and early March weather—that cut deeply into retail sales, resulted in curtailed industrial activity, and thereby served to intensify the uncertainty generated by almost steady declines in security prices—was still ahead.

In the past week or two, we have heard of several instances where decisions have been made to hold contemplated spending programs in abeyance pending clarification of the general business situation. These were not very large firms, and we do not know how widespread this holding back may be. There always are some firms curtailing or canceling their new plant and equipment programs while others step up their programs above original schedules.

And it is quite possible that, if the larger business organizations move ahead steadily with their programs as they usually do once the decisions have been made, the smaller and less well-financed organizations will be encouraged to follow along.

Capital Spending and Business

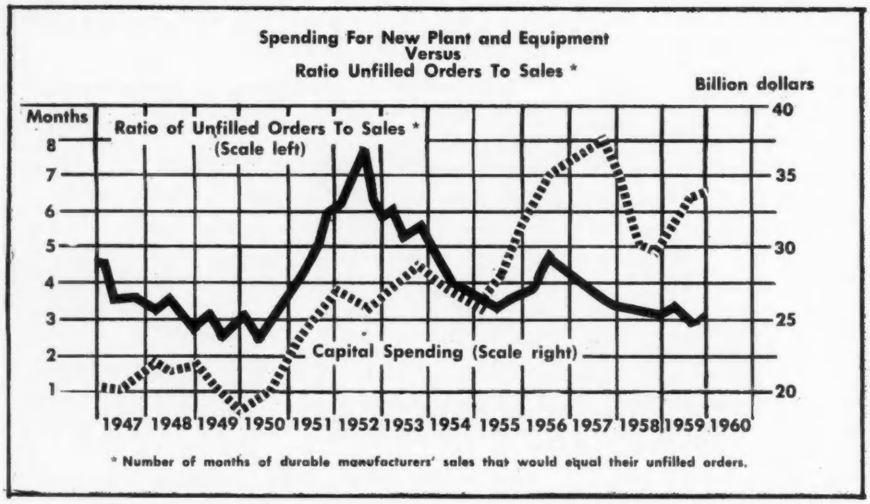
► According to the SEC-Commerce Department findings, new plant and equipment spending in the first quarter of this year was at a seasonally adjusted annual rate of $35.2 billion, and will rise in the second quarter to a rate of $36.9 billion.

► In the third and fourth quarters, the rate would rise to about $38 billion, in order to realize the indicated annual total of $37 billion. In the third quarter of 1957, when spending attained the highest levels on record, the rate was $37.75 billion.

► *Using the Gross National Product as a measure of business activity, we find that there is a distinct tendency for trends in capital spending and in business activity to coincide.* Capital spending sometimes has been slower than GNP in turning upward on recovery from recession, as one might expect. However, peaks in business activity and in capital spending tend to occur simultaneously.

► In 1948, both capital expenditures and GNP topped out in the fourth quarter. In 1957, both topped out in the third quarter. In 1953, GNP topped out in the second quarter and capital spending in the third quarter, but the differences between the second quarter and the third quarter were small in each instance.

Unless the "rules" have been changed, these comparisons indicate that *we have every right to expect that business activity, instead of sliding off into recession as so many seem to expect, will move rather steadily upward during most of this year, following much the same course as new plant and equipment expenditures.*



Strong Spring Upturn

Numerous lines of business activity customarily are at a low seasonal ebb during the first quarter of the year, followed by brisk upturns with the coming of Spring. Retail trade and construction activity, both of which are major business factors, are particularly susceptible to these seasonal influences.

This year, a combination of factors — including miserable weather, the late Easter, and the widespread uncertainty generated by the reaction to overpriced securities — occurred at the very time that so many lines of business activity were suffering from their customary seasonal lulls. It is small wonder that sentiment, undeniably overoptimistic late last year, turned sour.

Now, with stepped-up capital spending providing impetus to the normal seasonal Spring upturn, we foresee the distinct possibility of a rather rapid turnabout in sentiment. During the coming weeks, as the weather turns warmer, it is quite likely that a considerable amount of deferred business will come forward to intensify the customary Spring improvement.

• Areas of activity that are especially likely to benefit more than usual this Spring with the arrival of warmer weather include department store sales, automobile sales, construction spending, and farm employment.

• Business sentiment, currently in the doldrums, might well take off into the bright blue yonder if, as we rather expect, the Spring upturn proves to be greater than usual as a result of the development of deferred business and the impact of high and rising plant and equipment spending.

No Inconsistency in Estimate

There is, we know, considerable tendency to believe that the recent official estimate of $37 billion capital expenditures this year is unduly high.

Nevertheless, historical comparisons indicate that the estimate is entirely consistent with the most conservative estimates of 1960 general business activity and could prove to be on the low side.

During the past ten years, new plant and equipment expenditures have averaged 7.6 percent of the Gross National Product. Expenditures have ranged from 6.9 percent, in the recession year of 1958, to 8.4 percent in 1956 and 1957. Last year's percentage was 7.4, which would have been higher but for the steel strike.

If the Gross National Product this year is no higher than $500 billion as compared with $479.5 billion last year, capital spending would be $38 billion at the ten-year average rate of 7.6 percent and $37 billion, the same as estimated, at the 7.4 percent rate of last year.

Even the most pessimistic look for no lower GNP this year than $500 billion, and there is considerable belief that $510 to $515 billion is not unlikely.

Business activity could slacken appreciably in the fourth quarter of this year without depressing GNP below $500 billion for the annual total.

Signals Gave No Clue

The SEC-Commerce Department estimate of $37 billion for new plant and equipment spending was, as has been noted, a surprise and a rather pleasant one for a change.

None of the customary data indicated any such sharp rise in business spending.

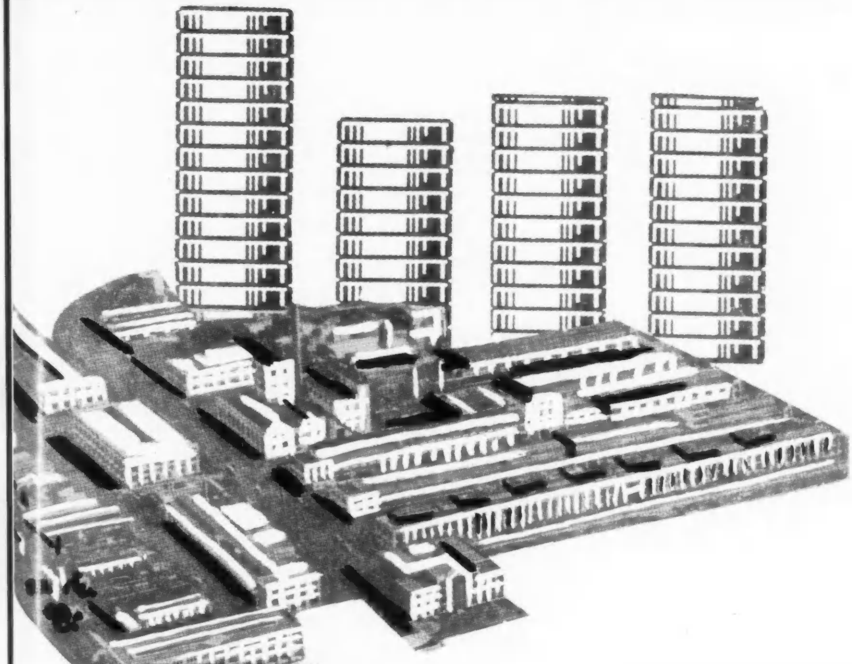
New orders for **machine tools,** which customarily soar when a sharp expansion in capital spending is being programmed, have tended to decline in recent months and, although at *(Please turn to page 56)*

Machinery Manufacturing Unfilled Orders
(Millions of Dollars)

Machine Tools Builders' Backlog

	Total	Electrical	Non-electrical	Number of Months *
Jan. 1, 1947	10,854	3,537	7,317	5.2
48	9,318	3,793	6,525	3.9
49	7,755	3,135	4,620	3.0
50	5,669	2,769	3,900	3.0
51	11,969	5,195	6,774	13.1
52	22,487	9,503	13,984	19.4
53	23,347	12,247	11,100	9.8
54	19,365	10,537	8,828	5.8
55	13,708	7,618	6,090	3.3
56	17,092	8,531	8,561	7.6
57	20,083	9,449	10,634	6.2
58	17,120	9,123	7,997	3.1
59	16,012	9,381	6,631	3.1
60	17,778[1]	10,004	7,774	4.8[2]

*—Number of months of shipments that would equal backlog.
1—Equivalent to 3.9 months' shipments at current rate versus 3.7 a year earlier.
2—Represents a drop from 5.2 in December, 1959.



ADVANTAGES for U.S. COMPANIES under FOREIGN FLAGS

—Point up Futility of Boggs Bill

By ROBERT B. SHAW

- **Existing tax advantages under foreign registration—how locally organized subsidiaries promote important U. S. foreign policy objectives**
- **Boggs Bill inconsistencies—dangers under threat of "gross-up" shortly to be brought up in the House**
- **Companies expanding foreign operations — those deriving large portion of sales income from abroad — and form of organization followed**

IT IS no secret that American companies are rapidly expanding their operations abroad. Of course, Singer Manufacturing, Firestone Tire & Rubber and many of the oil and mining companies have been "international" for decades. But until very recently such companies were distinctly exceptional. For American business by and large the domestic picture comprised all that was worth examining in their operations.

Today this situation is drastically altered. A few companies at the head of the parade, like Colgate-Palmolive or National Cash Register, derive substantially half of their sales and earnings from foreign activities. Many others realize up to 40% of their sales dollar from sources outside of the United States. And there can only be a very small minority that have no stake at all in foreign markets. In fact, the essential question which faces all large corporations is not *whether*, but *how*, to engage in foreign business.

This important development, taking place before our eyes, has been discussed frequently in this magazine. The explanations for it are both positive and negative. On the positive side, rising standards of living abroad, particularly in Europe, improved communications and the establishment of larger common trade areas, have combined

to create more attractive markets than ever before. In a negative sense, high costs and taxes in this country, besides other rigidities, have made it harder to supply foreign demand from domestic output. *In any case, the foreign market is now a volume market, which justifies its own manufacturing facilities.*

The shift in the emphasis of foreign operations from the procurement of minerals or raw materials to the development of markets is particularly significant, both for ourselves and for the foreign countries involved.

How to Serve Foreign Markets

Like the cautious swimmer who frequently dips his toe into the water, American companies can enter foreign trade in a very timid manner. The most conservative course is simply to wait for orders, and then ship to foreign consignees against irrevocable letters of credit. This was formerly as far as many domestic concerns wanted to go in developing foreign trade. But in the modern era, with British, German and firms of other nationalities beating the bushes for business, and then extending credit on liberal terms, such a supine attitude is equivalent to absolute resignation.

The American company eager for further business can go further, step by step, in appointing foreign agents, then establishing its own sales branches, and next perhaps by licensing foreign companies to manufacture under its patents and trade names. But more and more are now going whole hog and building their own manufacturing plants abroad. Many companies are in different stages of this process simultaneously; Procter & Gamble, for example, serves some of its less developed foreign markets by export sales, licenses local manufacturers to produce its brand products in other areas, and has established its wholly owned subsidiary plants in the larger countries.

Many American companies have also elected to penetrate the foreign field through joint ventures, or partnerships with local capital and management. The joint venture, discussed in detail in our August 15 issue, has many advantages both from a company and a national point of view.

Subsidiaries or Branches?

A decision must also be made whether foreign operations, either marketing or manufacturing, are to be carried on by branches of the domestic company or locally domiciled subsidiaries. This distinction may look trifling and in popular usage a foreign subsidiary may even frequently be regarded as a branch or division of the parent company. In actuality, however, the legal nationality of the foreign plant is a matter of some importance.

The distinction between the two methods of operation can be illustrated more clearly by specific examples. United Fruit carries on its operations in each Central American country through a separate subsidiary, but these are (with a few exceptions) incorporated in Delaware. Other "old" companies, such as American-owned railroads and utilities operating in particular foreign countries, have also usually been organized as domestic corporations. In other words, they have gone abroad strictly under the American flag.

But the more modern and now by far the more common process is the organization of operating subsidiaries abroad under local laws. Thus, Woolworth's British affiliate is actually a British Company, Eastman Kodak's subsidiaries are nationalized wherever located, and so on.

The Two Methods Contrasted

Each method of organization, the branch or the foreign subsidiary, has advantages of its own. These may be briefly summarized as follows:

Advantages of branch operation:

— Protection of American flag

— Closer control by American headquarters

— Automatic consolidation of financial statements

— Avoidance of tax on transfer of dividends or other assets between subsidiary and parent.

Advantages of foreign-base subsidiary:

—Autonomy usually stimulating

— Greater appearance of "belonging" in local environment

— Avoidance of U. S. requirements and restrictions that would be unrealistic abroad

— Deferral of U. S. income tax until dividends repatriated

— Lower combined foreign-U. S. income tax.

► **The fact is that the tax advantages proposed by the Boggs Bill exist in fuller measure in foreign-base subsidiaries.**

Elaboration of all of the points under both headings is impossible here. The tax consideration, however, deserves explanation. *The foreign subsidiary of an American company usually enjoys a tax advantage over either a purely domestic enterprise or an American company operating abroad through the branch system, for two reasons.*

► First of all, it may defer the U. S. tax until the foreign income is repatriated in the form of dividends to the American parent.

► Secondly, the combined foreign and domestic taxes on the income earned abroad are normally less than the 52% standard rate.

This benefit results because the foreign tax is allowed as a credit against the domestic tax, while the domestic income is reduced by the amount of the foreign tax. This concept can be explained more readily by a specific illustration.

Suppose the foreign subsidiary of an American company earns $100 in country X. Its tax would then be computed as follows:

Total profits from country X	$100.00
Country X income tax (20%)	20.00
Residue: assume distributed 100% to American parent	80.00
U. S. income tax (52% on $80)	41.60
Foreign tax credit allowed (80% of foreign tax paid)	16.00
U. S. tax after credit	25.60
Total U. S. and foreign tax paid	$45.60

The United States tax on the equivalent domestic income would be, of course, $52.

Should These Advantages Be Wiped Out?

These tax advantages are naturally important to individual companies. As indicated above, there may be offsetting considerations, but the overwhelming

Statistical Data On Companies With Large Foreign Business

	Total Sales 1959 * (Mil.)	Foreign Sales 1959 ** (Mil.)	Foreign Sales To Total Sales [2]	Methods of Foreign Business
Allis-Chalmers Mfg.	$540	$46	8.5%	Figures cited show export sales only. Wholly-owned manufacturing subsidiaries in England, Italy, Mexico, Australia not consolidated. Licensees in other countries.
Caterpillar Tractor	742	274	37.0	Company has organized domestic foreign trade subsids., but also manufacturers in wholly-owned, consolidated subsidiaries in Scotland, Brazil and Australia.
Colgate-Palmolive	534[1]	262[1]	49[1]	Bulk of foreign sales by overseas subsidiaries, but several U. S. subsidiaries operate in Latin American countries, Export sales minor.
Dresser Industries	232	60[2]	26[2]	Foreign sales consist principally of exports, but manufacturing activity abroad being increased.
DuPont	2,144	186	9	Foreign business conducted variously through branch offices, controlled foreign subsidiaries, and joint ventures.
Eastman Kodak	828[1]	231[1]	28[1]	Sales of foreign subsidiaries nearly three times domestic exports. Manufacturing subsidiaries in England, France, Germany and Australia.
General Electric	4,350	22[2]	5[2]	International Division conducts export sales and also supervises non-consolidated foreign subsidiaries.
International Business Machines	1,607	297	18	Existing I.B.M. World Trade Corp. controls all manufacturing sales activity in 87 foreign countries. Not consolidated in parent company statements.
International Harvester	1,363	358	25	I. H. Export Co. takes 5% of domestic sales. Parent also received $10 million dividends from 31 non-consolidated overseas subsidiaries.
Johnson & Johnson	298	71	24	Wholly-owned, but non-consolidated manufacturing subsidiaries in 15 foreign countries.
Joy Manufacturing	104	13	12	10 wholly-owned foreign subsidiaries (only Mexican and Canadian consolidated) in important mining countries.
Merck & Co.	207[1]	56[1]	27[1]	International Division responsible both for export sales and foreign subsidiary manufacturing operations.
Mergenthaler Linotype	46	21[2]	41	Active operations in 10 foreign countries carried on mostly by wholly-owned manufacturing subsidiaries.
Minnesota Mining & Mfg.	500	95	19	International Division controls manufacturing subsidiaries mostly wholly-owned in 9 countries. Only export sales, Canadian subsid. consolidated.
National Cash Register	419	159	38	Manufacturing subsidiaries, mosthly wholly-owned, in 25 foreign countries. 65% of all equipment sold abroad is build abroad.
Pfizer (Chas.) & Co.	223[1]	85[1]	38[1]	Large foreign business carried on both by export sales and manufacturing plants in 14 foreign countries, with increasing emphasis on latter.
Procter & Gamble	1,369	270[2]	20[2]	Products manufactured in wholly-owned subsidiary plants in 9 countries. Minor earnings from brand-name licensees.
Singer Manufacturing Co.	433[1]	257[1]	57[1]	World-Wide business carried on primarily through wholly-owned sales subsidiaries abroad. Foreign manufacturing now being expanded.
Westinghouse Airbrake	209	48	23	Figures cited are export sales only. Wholly-owned subsidiaries or joint venture in 9 foreign countries not consol.
Woolworth (F. W.) Co.	917[3]	N.A.	N.A.	British affiliate (53% owned) and German subsidiary (97%) largely responsible for steady parent company earnings. New wholly-owned subsidiary in Mexico.

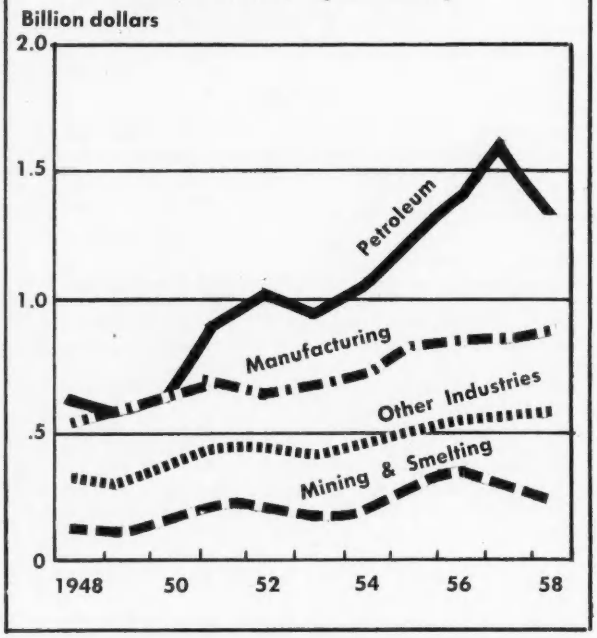
N.A.—Not available.
*—Includes some World-wide totals, and some domestic unconsolidated totals.
**—Approximate.
1—1958.
2—Estimated.
3—Includes U. S., Canada, Cuba, Puerto Rico and Hawaii.

preference for the foreign-base subsidiary form of organization is clearly indicated. Minor sales offices may still be operated as direct branches but it is now rare for any substantial foreign property to be built directly by an American corporation.

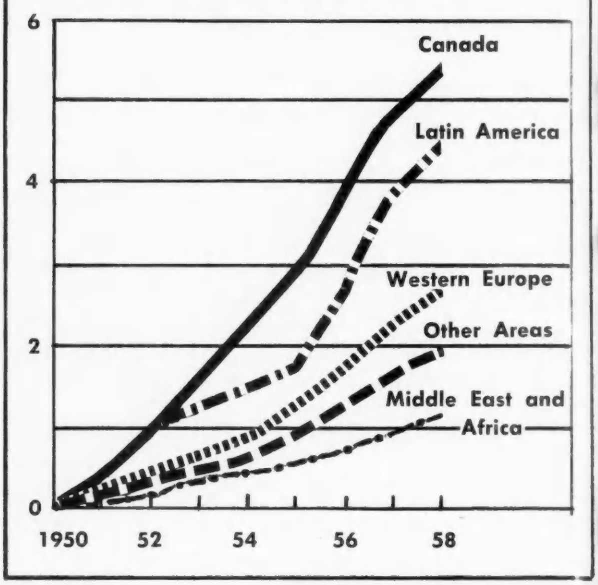
Of course, situations differ widely, and the best form and methods of conducting foreign operations will be entirely different for one company than another. It may seem, accordingly, that this is a pointless topic to discuss—*except that certain legislation now before Congress threatens the tax advantages which the foreign-base subsidiaries enjoy, and betrays some desire to reanimate the foreign branch type of operation. Such a program, if it were to win wider support, threatens a drastic change in present methods of doing business abroad.*

The Boggs Bill

This legislation was embodied specifically in the Boggs Bill, or the "Foreign Investment Incentive Tax Act of 1960," as it is formally known. Its essential element, the deferral of taxes on income earned abroad by American businesses, was originally proposed by the State Department as long ago as 1949, as a supplement to the Point 4 Program. The idea was again advocated by President Eisenhower in his budget message in 1954. It was not until 1958, however, that the measure was finally introduced in concrete form, and extended hearings held. Although the bill has enjoyed the support, with some reservations, of the State, Treasury and Commerce Departments, its principal sponsor has been Democratic



Earnings of U. S. Direct Foreign Investments, by Industry



Cumulative Increase in U. S. Direct Foreign Investments, 1950-58, by Areas

Representative Hale Boggs of Louisiana, in his capacity as Chairman of the Subcommittee on Foreign Trade Policy, while the Republican minority have recommended against its passage.

The heart of the Boggs Bill, which is extremely complex, "a lawyer's dream," is its proposal that American companies organized to carry on business abroad, to be designated as foreign business corporations (FBC's), may enjoy deferral of taxes upon their income until such income is distributed as dividends. Besides manufacturing and selling, income derived from performing services or from granting the use of patents, copyrights, franchises or similar privileges abroad will qualify a business as an FBC. If an FBC Corporation is owned to the extent of 80% of its voting stock by any single parent, then its dividends, while thereupon taxable as ordinary income, would be 100% deductible as collected by that parent corporation. If control of the FBC is divided more widely, then recipients of its dividends would receive only the normal 85% intercorporate dividend credit.

To illustrate these rules in practice, any American corporation, such as Joy Manufacturing or Westinghouse Air Brake, might organize an FBC to conduct all of its foreign business. Provided these subsidiaries complied with the qualifications mentioned above, their income taxes would be deferred until such income were declared as dividends and received by the parent companies. The FBC's would, of course, be subject to foreign taxes, but the difference between foreign and American taxes, often a sizable amount, would constitute a tax-free reserve that could be used for expansion or other corporate purposes. This advantage would be substantial, as executives of domestic companies hard pressed to finance growth from earnings 52% confiscated by the government could testify. In many cases the taxes might even be deferred indefinitely.

14% Tax Reduction Has Since Been Wiped Out

The original version of the Boggs Bill contained an important provision that has subsequently been eliminated, a 14% reduction in the tax upon the income of American foreign trade subsidiaries, even after repatriation. In brief, such corporations would have enjoyed a tax ceiling of 38%, instead of paying the full 52% levied against domestic organizations. This privilege had a precedent in the equivalent reduction already granted American companies doing business in Latin America, and denoted as "Western Hemisphere Trade Corporations." *The Treasury, however, opposed the universalization of this lower tax rate on the ground of the resultant substantial loss of revenue, and this particular objective, "Section 4," has been deleted from the bill.*

Much of the initial enthusiastic support for the bill by many foreign trade organizations may have been engendered only by this proposed tax reduction.

Dangers in Threat of "Gross-up"

The Boggs Bill, when brought up before the full House of Representatives on March 8, encountered strong opposition and was withdrawn by its sponsor, with the idea of reintroduction after some amendment. It may, however, be buried entirely in Congress's rush to adjourn before the campaigning season; and, on the whole, it would probably be wisest to let sleeping Boggs lie. *Nevertheless, one element in the bill, the "gross-up," is scheduled for independent discussion before the House in the early future, and this represents a considerable threat to foreign business operations.*

The "gross-up" is, in brief, a requirement that combined U. S. and foreign taxes on corporate earnings abroad must be *(Please turn to page 58)*

YOUR COMPANY Under the OUT-MODED ANTITRUST LAWS

– Where it is logical – reasonable – where disadvantageous to our whole economy

By BRYAN PYNOR

A STABLE political and economic environment in which business and industry may carry on operations is crucial to the continued progress of the American economy. Our antitrust laws and policies represent a vital element in this envioronment. Ill-advised laws or faulty administration of the statutes can place a strait-jacket on enterprise and progress. Today, there is a deep-seated feeling in many segments of the U. S. economy that a stifling of growth is threatened by an over-zealous application of our antitrust laws. Any such threat deserves probing examination and consideration by all public-minded citizens, political leaders, and others interested in American business.

The Soundness of Freedom to Compete

Few deny that competition is one of the key pillars of American capitalism, that freedom to pursue economic gain in one's own self-interest is one of the most important freedoms which we have. At the same time, most agree that the extent to which either individuals or corporations can pursue their own self-interest must be limited.

It was in the light of such beliefs as these and real evidence of the monopolization of economic advantages that Congress enacted the Sherman Act in 1890. Later, in 1914, the Clayton Act was adopted and an independent regulatory commission—The Federal Trade Commission — was also set up to police the industrial field against "all unfair methods of competition."

Since their enactment, these laws have generally been vigorously enforced by whichever political party, Republican or Democratic, has held power in Washington. Indeed, today there is closer agreement on our antitrust policies between the two parties than on virtually any other. Congressman Celler, the leading Democratic trust buster in the Congress,

has said this of Robert Bicks, the current head of the Justice Department's Antitrust Division: "he combines youth with wisdom, enthusiasm with restraint, and a desire to enforce the antitrust laws with a genuine sense of realism and practicality."

Not long after it won victory in the 1952 election, the Eisenhower Administration appointed a special study group to study our antitrust policies. Called the Attorney General's National Committee to Study the Antitrust Laws, this group—which counted among its members a large number of corporation lawyers experienced in defending clients in antitrust suits—did not find sufficient fault with the antitrust laws to issue any recommendations for changes in existing statutes.

Furthermore, most business interests firmly believe that America should have strong antitrust statutes on its books. Indeed, many of the antitrust cases brought to court originate from complaints filed by one company against another.

Ralph J. Cordiner, board chairman of General Electric, has forcefully pointed up the necessity of a strong antitrust system. He has said, "The success of the American economy is largely due to the creation of a business atmosphere that is founded on free markets and intense completion at the market place. Any arrangement that tends toward a system of cartels or price control or regulations by competitors is recognized by the citizens of this country as a deterrent to the present and future growth of our economy. It is for this basic reason that public opinion has obliged the government, regardless of the party in power, to enforce the antitrust laws very aggressively—in the public interest."

Yet lurking below the surface of thoughtful unanimity, regarding antitrust enforcement there is evidence that our antitrust system is not functioning as well as it should. Many businessmen feel that not only is the judicial process in most antitrust cases long and drawn-out, but that court decisions are, all too often, so vague as to have little application or relevance beyond the case at issue.

Antitrust Cases Instituted by Department of Justice

In the Past Year

	Type of Action	Commodity
United States v. Pitney-Bowes, Inc. (Consent Decree)	Civil	Postage Meters
United States v. Firstamerica Corporation	Civil	Banking
United States v. The Hertz Corporation	Civil	Car Leasing
United States v. Acme Steel Company	Criminal	Steel Stapling
United States v. American Smelting Company, et al	Criminal	Non-fer. Prod.
United States v. Kennecott Copper Corporation	Civil	Copper Prod.
United States v. Gasoline Retailers Ass'n., Inc., et al	Criminal	Gasoline
United States v. United States Rubber Company	Criminal	Mattresses
United States v. Firestone Tire & Rubber Company	Civil	Mattresses
United States v. Brunswick-Balke-Collender	Criminal	Gymn. Bleach.
United States v. Brunswick-Balke-Collender	Civil	——
United States v. Allied Chemical Corp., et al	Criminal	Chemicals
United States v. Singer Mfg. Co.	Civil	Zig-Zag Sewing Machines
United States v. National Dairy Products Corp.	Criminal	Milk & Dairy Prod.
Standard Oil Co. (Ohio) and Leonard Refineries Inc.	Civil	Anti-Merger
United States v. Allied Chemical Corp.	Civil	Chemicals
United States v. Carter Prods. Inc. and Amer. Home Products Corp.	Civil	Tranquilizers
United States v. General Motors (Euclid)	Civil	Machinery
United States v. Blue Diamond Corp., Bethlehem Steel, et al	Civil	Reinf. Steel Bar.
United States v. General Electric, Westinghouse Elec., Allis Chalmers, ITE Circuit Breaker Co., Federal Pacific Co., et al	Criminal	Heavy Electrical Prods.

Inconsistent Judicial Interpretations

Yet, it is the courts on which American industry and business must, at present, rely for any true understanding of antitrust policy. This is because the Sherman and Clayton Acts are extremely broad and general. The Sherman Act forbids contracts, combinations, and conspiracies in restraint of trade; it also forbids monopolizing and attempts to monopolize. Having stated these generalities, the law, however, makes no attempt to define even what monopoly is. Indeed, it is so imprecise that Justice Oliver Wendell Holmes was once moved to call the act "a humbug based on economic ignorance and incompetence."

► The Clayton Act is mainly known for its anti-merger clause. This proviso makes it illegal for one company to acquire another company either through stock purchase or by the purchase of assets if the proposed merger tends substantially to lessen competition or create a monopoly. Again, no attempt was made to define the lessening of competition or monopoly.

The looseness of the language of both acts thus makes judicial interpretation and decision all-important. Examinations of some of the decisions points clearly to the reasons why businessmen consider the system confusing and inconsistent principles.

For example, within a period of three and one-half decades, the Sherman Act received three different rulings by the courts. *In 1911, Chief Justice White made his "rule of reason" decision in which it was held that only unreasonable restraint of trade would be unlawful, thereby limiting the scope for prosecution and, in effect, placing "good" trusts on the side of the law.*

► In 1920, the Supreme Court held that U. S. Steel's concentration of market power, while immense, was within the law because any abuse of this power had not been proved.

However, in 1945, the courts decided in the Alcoa case that monopoly was unlawful, even if not accompanied by abuses of power. *Judge Learned Hand ruled "it (Congress) did not condone 'good' trusts and condemn 'bad' ones; it forbade all".*

► Since 1945, the Antitrust Division and the

courts have generally followed Judge Learned Hand's decision. However, no one can be sure precisely how individual cases may be decided even within the principles adopted in the Hand decision. As one observer recently put it, "The answers to the question of what sort of merger may be said to lessen competition substantially can only be inferred from the recent cases." And even then, he might have added one can never be sure that he has drawn the appropriate conclusion.

► Take the recent case involving Anheuser-Busch, for example. This company had purchased a brewery in Florida which made Regal beer, sold locally. Anheuser-Busch had decided to stop production of Regal and to use the brewery to produce its own beer, which had previously been shipped into Florida from elsewhere. However, the Justice Department charged that the removal of Regal would constitute an important anti-competitive factor in the Florida market. In January 1960, Anheuser-Busch agreed on the advice of its lawyers, without having tried the case, to sell the Florida brewery; it also agreed to refrain forever from purchasing a Florida brewery and even agreed to go so far as to refrain from purchasing any brewery anywhere in the United States for the next five years unless it had prior court approval.

The result of the case seems to be that a large national firm which already sells in a local market can only expand in that market by building its own plants. However, under the ever-changing atmosphere of current antitrust policies, a firm would probably be ill-advised to base its operations completely on this conclusion.

The Problem of Unlimited Allegation

Another basic reason for the uncertainty which surrounds current antitrust policy is that the laws place little limit on the allegations that the Antitrust Division of the Justice Department may make against potential litigations. Indeed, as Attorney General Rogers has stated, "In the Section 7 cases (under the Clayton Act) it is merely a question of whether a merger of two companies will tend to lessen competition. If we *think* it is a close legal question, we litigate it. The businessman, of course, can't be sure how it is going to come out . . ." No yardsticks are provided in the law for defining or limiting the action of the Department. *Thus, Justice Department lawyers may act whenever they think they might have a case.*

This unchecked scope for litigation which antitrust prosecutors possess raises one of the most baffling problems that company executives face. If the Justice Department brings action under Section 7, a company bent on merger has no choice but to fight the action if it wants to consummate the merger.

However, at the same time, management knows that the period required before the issue can be resolved will be a long one. During this period, considerable effort and time of many of the corporation's top officials will be required, not to mention heavy expense. *Thus, even though many merger-bound firms are sure that their move does not violate the law, they are compelled to halt the merger because delay involved in the court suit would be too costly.*

Under the circumstances, this is virtually the only choice a conscientious management can make, but it is hardly one it should be forced to make. In this manner, two proposed mergers in the oil industry—Standard Oil of Ohio and Leonard Refineries and Texaco and Superior Oil—had to be disbanded by management recently after the Justice Department reported its intention to fight the moves.

The **Texaco-Superior** case provides stil a further example of the long reach of the Antitrust Division. Many close observers of current antitrust policies believe that the Justice Department did not object so much to a Texaco-Superior merger *per se* as it did to the possibility that such a combination would provide a precedent for many similar mergers in the petroleum industry. In view of the current large over-supply of domestic and foreign oil, conditions in the oil industry do provide the kind of atmosphere that might well lead to a number of mergers. *However, to force a halt to a merger such as the Texaco-Superior one on the basis of these considerations rather than on the merits of the case itself can hardly be considered just.*

Other Inconsistencies

A further striking inconsistency in current antitrust policy is found in the *celebrated du Pont-General Motors case. This case points to the following conclusion: even if a firm made an acquisition decades ago, under fully legal circumstances, the Justice Department can, nevertheless, look into the deal at any time thereafter, if economic conditions change.*

du Pont bought its General Motors stock in 1917-1919, but the Justice Department did not bring suit until 1949. Then, when the case went to trial, the Government based most of its case on Section 1 of the Sherman Act. *However, the Supreme Court in deciding the case did not base its decision on the Sherman Act, instead it stressed heavily Section 7 of the Clayton Act, something the Government lawyers had not even stressed.* As one observer has put it, "This makes anarchy of the antitrust laws and it makes planning for the future very difficult."

Another outstanding example of the inconsistent impact of current antitrust policies on business and industry lies in the conflicting actions of the Justice Department with other agencies of Government. Large sections of the U. S. economy are subject to regulation of one sort or another by various other Government agencies.

For example, **El Paso Natural Gas Pipeline** must comply with the rulings and regulations of the Federal Power Commission. When El Paso moved to acquire all of the stock of a partially-owned affiliate, Pacific Northwest Pipeline Corp., the Antitrust Division tried to block the merger. *However, the Federal Power Commission approved the acquisition. Nevertheless, the Justice Department persists in its attempt to dissolve the merger.* In similar instances, the Justice Department has sued to upset a bank merger, which the Federal Reserve Board had approved.

The Need for Reform

The need to affect some changes in our antitrust policies which would alleviate conditions like those cited above thus seems *(Please turn to page 55)*

Inside Washington

By "VERITAS"

COMMUNISTS influence is back of social disturbances currently plagueing one portion of the domestic scene, and muddying waters in our racial relations. It will be officially denied by the appropriate Negro agencies, but there is indisputable evidence that foreign Reds have fostered the widespread southern disorders involving the seating of Negroes at public lunch counters and restaurants, *something the South simply will not accept.* The Reds know this, and they want it to stay that way. It is, however, a means of stirring up domestic strife and a method of adding to the President's confusion as he goes to the Paris Summit Meet. Economically, the Negroes have more to lose than to gain. They face employment boycotts, loss of credit facilities, etc., while the southern merchants are threatened with boycotts by a people who have nowhere else to buy. Washington friends of the Negro, in both Parties, are disturbed but they "just don't know what to do about it."

WASHINGTON SEES:

The gap between United States and Russian missile-space progress has been very sharply narrowed by the sucessful March 11 launching of Explorer V, now headed for a long-time orbit of Venus and the Sun, with definite prospects that it will reveal hitherto unknown secrets of space necessary to the successful launching of a human into space orbit.

Further, there recently have been 20-odd successful launchings of Atlas missiles with only one recorded failure in the lot. There has been no secrecy clamp-down, but there has been less publicity in connection with successful launchings, ample reports of failures, and these have been decreasing. Maybe it is designed to mislead or confuse our potential enemies.

Jubilant is the proper adjective for Administration reaction to the success of Explorer V. It is likewise the reaction of Members of Capitol Hill Committees and others in high Government spots concerned with space. Despite the top-level exuberance, hard-working scientists of the space-missile program are not relaxing their efforts. They are redoubling them.

It all means, according to a top space expert who, for the moment prefers anononymity, "The United States will have an astronaut into space and safely back here before next Winter's snows and before the Russians make such an attempt."

CUBA, Moscow's Western Hemisphere outpost, will become increasingly difficult in the weeks ahead, according to good intelligence sources. Insult will be added to insult, and there will be increased seizure of American properties, despite the fact that many of the most profitable ventures have already been expropriated. It, like the southern disturbances, is part of an overall Moscow pattern to upset the President's equilibrium at the Paris Summit conference. It is believed, however, that Castro will avoid an overt move toward our Naval installation at Guantanamo Bay. Such a move would endanger the position of the United States, and give us ample grounds to get clearance from the Organization of American States to take whatever action we may deem necessary. Barring direct military aid to Cuba from Russia, Washington believes we could stabilize the situation in a matter of days. Pessimists on the Washington scene, and they rank high, feel that Castro is trying to provoke us into military action so that he can brand us as being the aggressor.

FARM surplus problems are seemingly consigned to the limbo of a new Congress. Our excesses of grains, cotton, tobacco and other price-supported crops, mount daily but the Members of Congress — Republicans and Democrats alike — are averse to tackling the problem prior to early July adjournment, other than to hold protracted hearings and "investigations," after which the buck will be passed to the next Congress. Two reasons: The Congress itself is in a political fog; and an election year is no time in which to "rile" the farm vote.

As We Go To Press

Saline Water Conversion program moves forward at an accelerated pace, according to best information available in Washington. Construction specifications for a 1-million-gallon-per-day conversion demonstration plant to be erected at Freeport, Texas, will be available to properly interested parties on April 1. This is the first of five saline water conversion demonstration plants authorized by Congress two years ago. Interior Department is calling for bids about one year sooner than expected. Interested contractors, prepared to bid on the entire plant and be responsible for complete construction and start-up operation, should communicate at once with Director of Office of Saline Water Conversion, Dept. of Interior, Washington.

Private Industry Expansion belies forecasts of mid-1960 recession projected by certain government and labor economists who have evinced concern over inventory cut-backs, slow automobile sales and consequent reduced motor car production. Reports from reliable government sources indicate 1960's new plant and equipment expenditures will hit $37 billion, a hefty 14 percent jump over 1959. This concrete expansionist planning, involving the expenditure of hard dollars, would seem to offset the pessimistic predictions of the economic theorists - government and labor.

Business Firms Planning an Active Role in Politics may swing away from the Washington lobby idea and work more actively at community levels, adopting tactics identical with those of the AFL-CIO's Committee on Political Education (COPE). The decision, in the formative stage for some months, received its final impetus from recent municipal elections in an Ohio city - Marietta. Through persistant doorbell ringing and organization at the precinct level, COPE brought about election of three union officials to the City Council, one of them taking the presidency.

Tough Codes of Ethic in the Making; for quasi-judicial agencies, that is. Recent resignation - under fire - of John C. Doerfer, Chairman of the Federal Communications Commission, who admittedly enjoyed lavish hospitality of a major radio-television executive, has stiffened intent of Congress to write some tough legislation spelling out proper conduct of members of certain Federal agencies - Federal Communications Commission, Interstate Commerce Commission, Federal Trade Commission and Securities and Exchange Commission. The bill to emerge may contain severe criminal penalties for those who do not "toe the line."

The Doerfer affair has revised thinking in the House Legislative Oversight subcommittee of the House Interstate and Foreign Commerce Committee, headed by Rep. Oren D. Harris, Arkansas Democrat. The Harris group, after wading through the rigged TV show and "Payola" scandals, was readying relatively mild legislation to regulate radio-tv advertising and programming, hoping that the broadcasting industry could, or would, effectively police itself. Now, since the Doerfer "exposure," the Committee is ready to write - and vigorously support - legislation to straitjacket the FCC and other regulatory agencies.

In the meanwhile, the Federal Trade Commission, through its greatly expanded radio-tv monitoring system, is readying some crack-downs on air wave advertising in several areas - prominent among them simple remedies for colds, headaches, dentifrices and other cosmetics. Coincidental with this move will be an equally tough move against newspaper and periodical advertising in the same fields. The FTC, like other regulatory agencies, is extremely sensitive to Capitol Hill views.

Merchant Shipping Situation is Disturbing. The Federal Maritime Commission and the American Merchant Marine Institute are both unhappy over the present condition of American flag merchant fleet. The lack of

cargoes and the low level of freight rates has reduced the number of U. S. flag ships in ocean service. On Jan. 1, we had 115 privately (U. S. owned) vessels idle because of lack of business, compared with 72 on the same day a year ago. Merchant seaman employment has dropped around 35 percent, while net cargo tonnage for our ships has dropped slightly more.

Anti-Bootlegger Drive Moves Into High Gear, but results may be somewhere between negative and even. Because of Federal tax of $10.50 per proof gallon on liquor, the outlaws can undersell the legitimate market by $4 or $5 per gallon and still make a profit of around 400 percent, costing the government around $500 million revenue annually. Alcohol Tax Division of Internal Revenue Service is stepping up its drive against the "moonshiners," but privately declares that it "cannot do much" without additional Congressional appropriations. Others in the Service very definitely feel that reduction of the high Fedral tax would curb the illicit operators and at the same time produce additional revenue, thus proving the "law of diminishing returns."

Savings Bond Redemptions Outrun Sales by about $200 million a month. It is not because the bonds are well-advertised, and mostly "for free" by patriotic organizations, but because govenment, through other agencies, continues to offer the "little fellow" greater advantages — higher interest rates through government insured corporations, such as Savings Banks and Building and Loan and Savings Associations. Congress won't move in on the situation, despite Administration pleas that the situation be made "more competitive." Meanwhile, prospects that interest rates on long-term securities be hiked has run into a Congressional road block. The higher interest rate has the unqualified support of Sen. Finance Committee Chairman Harry F. Byrd, Virginia Democrat, but he is powerless to act until the House passes and sends to the Senate a revenue measure of any sort that can be amended toauthorize the higher interest rate.

The House Ways & Means Committee has been somewhat adamant in its attitude that there be no tax revisions until next year, when there will be an opportunity to revise and simplify the entire Revenue Code. Therefore it has blocked House action on the Boggs Bill to prevent a Senate amendment which would hike the long-term interest rate, as well as another amendment to tax farm and other cooperatives — not so much to capture revenue, but to bring the coops more into competitive line with private enterprise. Congress would prefer to avoid "irritating" the over-exaggerated farm vote in an election year.

Currency Conterfeiting, of Cuban Origin, Disturbs Treasury. It hasn't leaked out yet, but the T-Men are considerably disturbed over the possible origin of copious amounts of counterfeit currency from Cuba, all of it of Russian production. Already, very creditable reproductions of the dollar bill have put in appearance. Not completely counterfeit because the reverse carries Cuban propaganda. Worrying the T-Men is the perfection of the obverse, and the fact that in the war years, under the direction of the late Harry Hopkins, confidential Advisor to President Roosevelt, we handed the Russians some of our best currency plates.

Yanquis Get Out of Cuba, and the word is — despite official denials — from our own State Department. Anti-American campaign in Cuba is now at fever heat. Department officials in Washington fear that Castro radio-television diatribes will reach a "point of no return," that he won't be able to control his slap-happy revolutionaries, all well-armed, who may start "shooting at will," the target being anyone who looks American.

Civil Rights Debate, about over as this reaches print, has not seriously hampered the overall legislative program — may have even worked well for the national economy, especially in the areas of a balanced budget and reduction of the Federal debt. It works this way: The Congress wants to get out of Washington by July 4 at the latest, ergo, controversial legislation which could encounter a veto — and included are aid to education, help for economically depressed areas, hydro-electric developments, irrigation, etc. — will be passed over. Major appropriations bills, naturally, will be cleared and most of them may also be pared, benefitting the taxpayer.

THE JOKER IN RUSSIA'S COMMODITY-BARTER and TRADE DEALS

By JAMES A. LOUGHRAN

- **Political and economic significance to the individual countries — to commodity markets — "dumping".**
- **Where barter trade is used as a political club that destroys economically**
- **Soviet contracts just scraps of paper**
- **Dangers in trade with Russia — and what has happened in the countries that have made barter or other trade agreement with the USSR**

AS THE Honorable Charles E. Bohlen, former Ambassador to Russia has pointed out, up to 1954, the Soviet Union had no programs of assistance to any parts of the non-Soviet world. Her efforts in this direction were directed solely towards her economic relations with the satellites in Eastern Europe and subsequent to 1949 to Communist China. In 1954, however, the Soviet Union entered the field of economic assistance to countries outside of her immediate area of control and influence. The effort has not been inconsiderable and shows every prospect of growing. In the period from 1954 to 1959, the Soviets committed themselves to a total amount of assistance, both economic and military, of some $3.2 billion of which $2.45 billion was in economic assistance alone. With the exception of a small $17 million credit to Turkey, $5 million to Iceland and $104 million and $2 million to Argentina and Brazil respectively, the entire emphasis of Soviet aid has been in the area of so-called "neutral" or "uncommitted" countries. This distribution of Soviet aid demonstrates its highly political purpose, which in the short run at least does not seem to be the promotion of an actual Communist takeover in those countries so much as to influence the foreign policy of these countries, to tie them as closely as possible to the Soviet bloc. Soviet assistance is not primarily directed towards assisting in the sound economic development of those countries, but rather towards influencing the

Sino-Soviet Bloc Credits and Grants Extended to Less Developed Countries of the Free World
January 1, 1954 — December 31, 1958 [1]
(Millions of US dollar equivalents)

Area and Country	Total	Economic	Military
Total	2,384	1,602	782
MIDDLE EAST AND AFRICA	1,146	566	580
Ethiopia	2	2	0
Iran	3	3	0
Iraq	120	0	120
Libya	[2]	[2]	—
Turkey	13	13	0
UAR			
Egyptian sector	626	311	315
Syrian sector	323	195	128
Yemen	59	42	17
SOUTH AND SOUTHEAST ASIA	966	764	202
Afghanistan	159	127	32
Burma	34	34	0
Cambodia	34	34	0
Ceylon	58	58	0
India	304	304	0
Indonesia	364	194	170
Nepal	13	13	0
EUROPE	168	168	0
Iceland	5	5	0
Yugoslavia	163[3]	163	0
LATIN AMERICA	104	104	0
Argentina	102	102	0
Brazil	2	2	0

1—Total aid extended by year is as follows: 1954 — $11 million; 1955 — $339 million; 1956 — $718 million; 1957 — $287 million; 1958 — $1,029 million.
2—Value not known.
3—Recent information indicates that further expiration of bloc credits may have reduced this amount to $110 million.

governments' attitudes regarding international affairs, in some cases by seeking to engender popular support.

Several recent events illustrate the fact that Russia continues to mix its policy of diplomatic recalcitrance toward the free world with a policy of commercial cajolery. Examples of these events are numerous. The Soviet commercial agreement to buy a million tons of Cuban sugar a year for five years — the Soviet purchase of the Ghana cocoa crop and their oil — cocoa barter agreement with Brazil — Russian oil sales in the Common Market — are cases in point.

One evidence of the Soviet Oil Export Trust's sales drive in Western Europe is their opening of a special sales office in London. In view of England's overriding interests in Middle East oil, this is rather a bold step, but, according to informed observers, the Soviet oil export representatives actually do hope to compete with Middle East oil in England. So far they have not been successful, although a small increase in Soviet Bloc oil exports to England has been noted of late.

Another aspect of this drive is the recent trade agreement between West Germany and the Soviet Union, which calls for a sharp increase in Soviet oil shipments.

France and Italy are also appreciable buyers of Soviet oil, particularly Italy, which is bartering Soviet oil against Italian petrochemicals. The Soviet Union's oil exports drive into Europe has caused some worries in French oil circles, which fear that Red oil might interfere with their hoped for sales of Saharan oil throughout the Common Market.

On the other side of the world, the Soviet Union has recently made its first long term oil export agreement with Japan. Shipments during 1960 will amount to 1.1 million tons of oil, and will be progressively increased over the next several years.

These developments when considered with other events — such as Russia's sale of tin and aluminum to the severe harm of primary-product countries and the overtures of Khrushchev, Mikoyan and Koslov for greater trade with the United States — point up the complex and seemingly contradictory nature of the foreign trade policies of the U.S.S.R. For the West to fail to note the motivations underlying these activities and their significance would entail a repetition of the mistake we made in discounting the Soviet scientific advances in the pre-Sputnik days.

Under a state controlled system, trade is always a means to an end and not an end in itself. With this maxim in mind, we and our public commentators have often been deceived with respect to Soviet trade policy because we have insisted that it was carried out for harmful political ends. But today, the foreign trade of the U.S.S.R. involves more than being part of the over-all foreign policy of that country. It is essentially a part of the Kremlin's domestic economic policy.

Without disregarding the important and often controlling political motivations in Russia's foreign dealings, particularly as such dealings relate to smaller and underdeveloped countries, the foreign commercial decisions of the Soviet are increasingly being based on domestic economic considerations.

Sino-Soviet Bloc Nonmilitary Technicians in Less Developed Countries of the Free World
July-December 1958 [1]

Area and Country	Technicians
Total	2,760
MIDDLE EAST AND AFRICA	1,110
Ethiopia	25
Greece	5
Iran	10
Turkey	60
UAR	
Egyptian sector	535
Syrian sector	275
Yemen	200
SOUTH AND SOUTHEAST ASIA	1,600
Afghanistan	600
Burma	85
Cambodia	50
Ceylon	40
India	555
Indonesia	265
Pakistan	5
LATIN AMERICA	45
Argentina	45
WESTERN EUROPE	10
Yugoslavia	

1—Minimum estimates of personnel working on a contract basis for a period of one month or more. Personnel engaged solely in trade promotion or military activities are excluded. Numbers are rounded to the nearest five.

No longer does the U.S.S.R. desire to import just any type of capital goods. Its spectacular economic advances have now made it necessary to import with greater selectivity. Specialized equipment for its lagging industries and highly precisioned machines embodying the latest in modern techonology receive the highest priority.

This desire for capital equipment to feed the vast Soviet industrial machine helps to explain the overtures of the Russian leaders for greater trade with the U.S. For, Russian sales in the American market will help earn the dollars necessary to purchase new American equipment.

It is fairly predictable that domestic economic considerations, important now in the formulation of a Soviet foreign trade policy, will receive an even higher priority in both Russia and Red China as the industrialization of these states proceeds. For it is only by paralleling the U.S. in productive power and in standard of living that the appeal of Communism to the underdeveloped areas will be more greatly enhanced. Similarly the more powerful the Red economic machine, the more equipped are the Communists to inflict their will upon the West.

Russian Economic Considerations Come First — Regardless

Despite the cries of many to the contrary, the Soviet sales of aluminum and tin which disrupted the world market in 1958 can well be considered as demonstrating the importance of economic considerations in Soviet foreign trade. Taking the case of tin, for example, the Kremlin acqured this commodity from China in partial repayment of a debt. Needing pounds sterling for purchases in Malaya, Ghana, South Africa and New Zealand, Russia searched around for something it could spare which could be sold for sterling; tin was found to be available and 18,000 long tons were "dumped" at a time of oversupply in the world tin market. The result was a sharp drop in the prices of tin with serious effects on the economies of Bolivia and Malaya, the principal tin-producing countries.

It is possible that had Moscow realized that it would be charged with dumping, the sales might not have been made, since the political repercussions of a "dumping" charge curry favor with no nation including the U.S.S.R. At any rate, whether this "dumping" was primarily politically or economically inspired, the West may expect similar such moves in the future as the Soviet bloc countries develop the capacity to allocate more goods for export. We must not be misled, however, in attributing every such move solely to a Communist desire to make economic warfare on the capitalist countries. The case may well be that such actions are determined by various economic motives such as a lack of balance in the Soviet economy rather than by pure political interests. *One point worth remembering in analyzing Soviet trade is that Russia has an acute balance of payments deficit with the Sterling Area. The recognition of this point provides a key to an understanding of much of Moscow's trade behavior.*

Trade Used For Political Ends

Although economic considerations do play an influential role in the conduct of Soviet foreign trade, one cannot say that Russia does not use its expanding economic power for political ends. The recent experience of Finland, where Soviet pressure on trade matters precipitated a Cabinet crisis, is a striking example of Russia's ability to use trade for political gain. *Here, Moscow displeased with the Fagerholm Government of Finland because it favored closer ties to the West, caused considerable economic dislocation in that country.*

Finland conducts 25 per cent of its foreign trade with the U.S.S.R. and is principally dependent on its exports of timber products for foreign exchange. *Russia at a time of high unemployment in Finland and for obvious political purposes, canceled the annual trade negotiations with Finland, threatening to have its satellites purchase Austrian lumber rather than Finnish.* This conduct generated severe economic pressures and ultimately brought about the collapse of the Fagerholm Government in December, 1958.

Another instance where the trade of the Soviet Union was influenced by political motives was the Russian buying of Icelandic cod, following the British embargo of fish imports from that country. *Here, undoubtedly, the Kremlin's motive was to weaken the value of this island as a NATO base.*

Iceland, which now sends approximately 33 per cent of its exports to the Soviet bloc and receives about a third of its imports from that area, *is as a matter of fact, vulnerable to the same technique that the Soviet Union used to advantage in Finland* — that technique which makes the economy of a smaller country dependent on the Soviet bloc as a customer.

Soviet Contracts Are Scraps of Paper

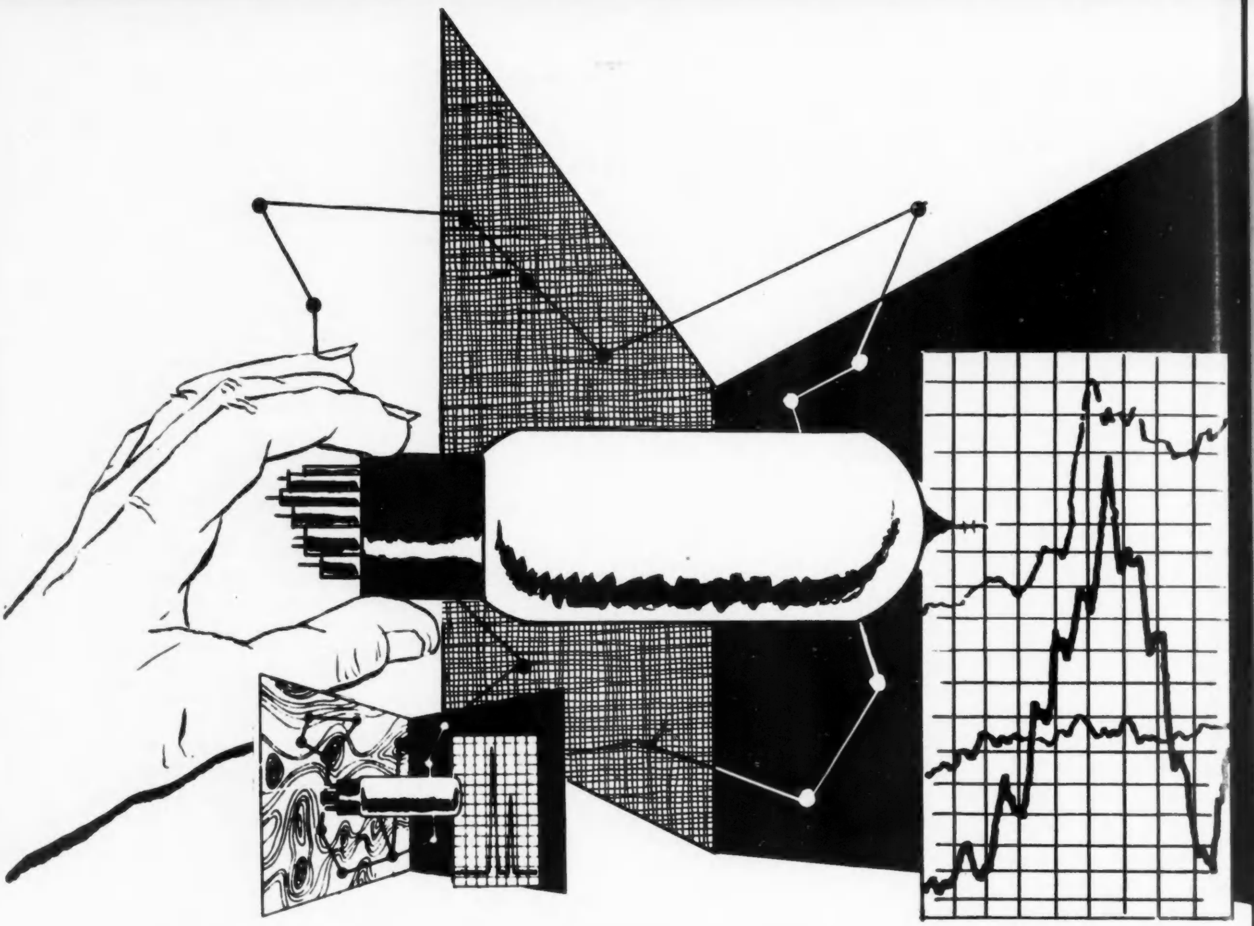
At best trade with the U.S.S.R. is beset by much uncertainty. For, when the Kremlin so desires, it breaks contracts at will. A case illustrative of this and one whose result was inspired solely by political considerations was the Russian breach of contract to deliver oil in Israel.

In this instance, **Israel** *had entered into a contract for the purchase of Russian oil and had fulfilled its obligations under the contract.* But when Israel invaded Egypt in 1956, the U.S.S.R. unilaterally canceled the agreement. The parties had not provided for cancelation under such circumstances and thus the Israeli oil company sued the Soviet oil agency for damages in the amount of $7.5 million. The claim was dismissed by the Moscow Chamber of Commerce in 1958.

Thus, an analysis of the above three situations clearly shows that political and propaganda factors exercise a very predominant influence on Soviet foreign trade.

The Dangers in Trade with USSR

The fact that Soviet trade is increasing and that there appears to be substantial economic motives in its commercial policy does not detract from the oft-repeated statement that the Soviet Union does not "trade" in commercially acceptable sense of that term. Cases demonstrative of this are numerous and the lessons to be drawn therefrom are instructive. Hence let us examine at this point a few of the more notable events that give rise to this statement. *(Please turn to page 48)*



DYNAMIC ELECTRONICS INDUSTRY

I - Makers of Devices and Controls

► **Investment vs. gambling — why discrimination is the essential in buying stocks in this exciting industry**

► **The leaders — and the runners up — in building new sales and earnings . . . the pure gambles**

By JOHN R. McCRACKEN

INVESTORS are bound to be thrilled by the exciting and successful launching of Pioneer V into orbit around the sun — an electronic marvel in communications that far outstrips Russia's boasted achievements, — for this happens to be an extraordinary attainment, unmatched in the annals of mankind. It is therefore certain to stimulate a fascinated interest in electronics, in which there has already been considerable investment and dabbling.

Thus, let any company announce a new outer-space fantasy, or some other "Buck-Rogers-like" device, and we can expect the speculative public to rush in madly to buy — for electronic shares have become the vogue.

Stocks that appeal to the imagination inevitably set a fashion, and this has been true of the electronics industry in no small measure. The process is not new. And the same forces are at work. We have seen it recently in uranium, where the buying of shares was indiscriminate — values were ignored in favor of pie-in-the-sky, and eventually opportunists floated enough new issues to satiate the demand for shares.

After the splurge was over, most of the new companies had fallen by the wayside and sounder issues were selling at half their former prices.

In effect, electronics is now in the fad stage, a stage that is most dangerous because as it progresses it tempts even the cautious and wary investor. Investment in this field distinctly calls for discrimination. The leaders are in the best position because they have the finances necessary for the costly research and can meet the problems of obsolescence. In most instances their operations in electronics are a venture into diversification.

Leading Companies Making Industrial Devices and Controls

	Earnings Per Share				Dividends Per Share					
	1957	1958	1959	1959 Cash Earnings Per Share	1957	1958	Current Annual Div. †	Recent Price	Div. Yield	Price Range 1959-60
American Bosch Arma Corp.	$2.67	$2.14	$1.83	$ *	$1.05[1]	$1.20	$1.20	25	4.8%	39⅝-23¼
American Chain & Cable	5.93	3.59	4.25[3]	*	2.50	2.50	2.50	45	5.5	61¾-44½
American Machine & Metals	3.18	2.50	3.57	*	1.37	1.40	1.60	46	3.4	59¾-41
Ampex Corp.	.20[4]	.27[4]	.40[4]	*	—	—	—	39	—	42¼-32⅝
Avco Mfg. Corp.	.70	1.02	.93	1.54	.10	.40	.50	12	4.1	17⅝-10½
Beckman Instruments, Inc.	.16[2]	d .70[2]	1.30[2]	2.46[2]	[5]	—	—	71	—	78¼-34¼
Bendix Aviation	5.44	4.18	5.37	7.56	2.40	2.40	2.40[1]	68	3.5	89 -61
Daystrom, Inc.	2.57	.62	2.50[3]	*	1.20	1.20	1.20	39	3.0	49¾-34
Dynamics Corp. of Amer.	.02	.16	.25[3]	*	.20	—	—	11	—	13¾- 4⅝
General Electric	2.84	2.78	3.19	*	2.00	2.00	2.00	86	2.3	99⅞-74
General Precision Equipment	3.03	d .74	2.63	*	2.40	.85	1.00	48	2.0	60 -31½
International Tel. & Tel.	1.56	1.81	1.85[3]	*	.90	.90	1.00	35	2.8	45½-28
Litton Industries	.76[8]	1.07[8]	1.62[8]	2.18[8]	—	—	[6]	69	—	75 -57⅝
Minneapolis-Honeywell Reg.	3.07	3.23	4.20	*	1.75	1.75	2.00	130	1.5	150 -111½
Raytheon Mfg.	1.70	3.08	3.89	5.22	—	[7]	[7]	43	—	73⅞-41¼
Robertshaw-Fulton Controls	2.36	2.40	3.35	*	1.50	1.50	1.50	48	3.1	59¾-31⅝
Servomechanisms Inc.	.41	d .05	—	*	.40	[7]	—	9	—	18¼- 9
Square "D" Co.	1.74	1.12	1.95	*	1.00[1]	1.00	1.00[1]	31	3.2	37⅞-26⅞
Texas Instruments, Inc.	1.30	1.99	3.55	5.68	—	—	—	172	—	193½-61¼
Westinghouse Air Brake	2.89	2.10	2.71	3.87	1.20	1.20	1.20	27	4.4	38½-26⅜
Westinghouse Electric	2.09	2.12	2.43	7.64	1.00	1.00	1.20	49	2.4	57¼-45½

†—Based on latest div. rate.
d—Deficit.
*—Not available at time of going to press.

1—Plus stock.
2—Year ended Jan. 30.
3—Estimated.
4—Year ended April 30.

5—Paid 3% stock.
6—Paid 2½% stock.
7—Paid 5% stock.
8—Year ended July 31.

American Bosch-Arma: Heavy defense participation and some improvement in auto parts should improve earnings. **B1**

American Chain & Cable: Automation and electronics added to traditional lines should continue improving earnings trend. **B1**

American Machine & Metals: Diversification is continuing, augering well for future earnings stability. **B2**

Ampex: Important producer of magnetic tapes. Earnings small, but percentage gains should be large. **C1**

Avco Mfg: Complete reliance on defense business and poor past record hurt company's status. **C2**

Beckman Instruments: Rapid earnings growth of last two years should continue as demand for its specialized instruments grows. **B1**

Bendix Aviation Some improment likely, but company's growth has been disappointing in last five years. **A1**

Daystrom: Sharp earnings recovery in 1959 was welcome, but future growth will be slower. **B2**

General Electric: Major factor in most areas of the electronics industry. Better earnings trend should continue. **A1**

General Precision Equipment: Predicted earnings recovery materialized in 1959, but companies future is still in doubt. **C1**

International Tel. & Tel.: Growth of electronics and more aggressive management leading to better results. **B1**

Litton Industries: Rapid growth in sales and earnings through acquisitions should continue in the year ahead. **C1**

Minneapolis-Honeywell: Prime manufacturer of controls, with top draw record of achievement. 1960 will be another good year. **A1**

Raytheon: Successful defense missile and electronics contractor, but growth is slowing down. **B2**

Robertshaw Fulton Controls: Good quality producer of regulators and controls may be entering new phase of earnings growth. **B1**

Texas Instruments: Prime growth company, active in transistors and other semi-conductors. Earnings will keep rising rapidly. **B1**

Westinghouse Airbrake: Melpar electronic division is growing rapidly to major status. Earnings improvement will be small. **B1**

Westinghouse Electric: Second largest diversified company in the industry. Earnings are in good uptrend. **A1**

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings record.
2—Sustained earnings record.
3—Lower earnings record.

Industry Versus Stocks

Paradoxically, there is little doubt that the electronics industry is growing more rapidly than even its most ardent supporters would have predicted. But it is not growing as quickly as the prices of the stocks would indicate, nor are individual companies necessarily prospering in line with the advancement of the industry. The fact is, that in just ten years the total factory output of all electronic equipment manufacturers has more than tripled to a $15 billion rate, but for most companies profits have been slim and often non-existent. Moreover, there is every likelihood that this situation will continue until the industry is pared down to fewer and more efficient companies. But this will not be easy, since electronics is a low capital input industry, which means that new companies can enter the field with relative ease.

Fortunately for seasoned investors there are ways of participating in electronics without incurring the exceptional risks of pure gambling. Such Goliaths as General Electric and Westinghouse are firmly entrenched in the field, while even the buyer of American Telephone & Telegraph (usually thought of as a widows and orphans stock) ob-

tains a share of the Bell Telephone Laboratories and Western Electric, two of the outstanding electronics companies in the world.

In addition, there are scores of other companies with long records of achievement that afford the investor important participation in all of the excitement of new discoveries along with some proof of past performance and more than a semblance of investment value.

Take **Minneapolis-Honeywell,** for example. The company is a leading producer of electronic equipment for aircraft and guided missiles. But it is also the most important manufacturer of electrical heat regulators for use in private homes, one of the largest producers of industrial electrical control devices and possesses one of the nation's leading electronic research organizations. Honeywell is not cheap. Many years of better than average performance, steadily rising profit margins and an exceptional record or new product development have kept the stock among the electronic frontrunners. But at least here there is reason. Since 1953 sales have doubled and earnings have tripled while the company has broadened its horizons consistently. Currently, for instance, its Datamatic 800 transistorized computer is being publicized as the hottest item in the computer field. Not one has been shipped yet, but the company's backlog for just this one piece of equipment is already $35 million.

With earnings of $4.20 per share in 1959, the highest on record, the stock at about 135 is too generously priced in the current market. Nevertheless, for those with the patience to wait for lower prices, Minneapolis-Honeywell can be a rewarding long term holding.

Comprehensive Statistics

Figures are in millions of dollars, except where otherwise stated.	Avco Corp.	Bendix Corp.
CAPITALIZATION:		
Long Term Debt (Stated Value)	$ 36.2	$ 1.2
Preferred Stock (Stated Value)	—	—
Number of Common Shares Oustanding (000)	10,249	5,104
Capitalization	$ 67.0	$ 26.7
Total Surplus	$ 75.3	$205.9
INCOME ACCOUNT: Fiscal Year Ended	11/30/59	9/30/59
Net Sales	$ 306.0	689.7
Deprec., Depletion, Amort., etc.	$ 6.2	$ 11.2
Income Taxes	$ 8.9	$ 32.3
Interest Charges, etc.	$ 2.1	$ 1.8
Balance for Common	$ 9.5	$ 27.4
Operating Margin	6.5%	8.6%
Net Profit Margin	3.1%	3.9%
Percent Earned on Invested Capital	9.0%	11.8%
Earned Per Common Share	$ .93	$ 5.37
Cash Earnings Per Common Share	$ 1.54	$ 7.56
BALANCE SHEET: Fiscal Year Ended	11/30/59	9/30/59
Cash and Marketable Securities	$ 22.3	$ 16.8
Inventories, Net	$ 54.6	$140.9
Receivables, Net	$ 59.7	$131.1
Current Assets	$ 136.7	$288.8
Current Liabilities	$ 45.2	$147.6
Working Capital	$ 91.5	$141.1
Current Ratio (C. A. to C. L.)	3.0	1.9
Fixed Assets, Net	$ 44.7	$ 76.9
Total Assets	$ 187.5	$384.6
Cash Assets Per Common Share	$ 2.01	$ 3.28
Inventories as Percent of Sales	17.8%	20.4%
Inventories as % of Current Assets	17.9%	48.7%

A Look at The Giants

General Electric, which needs little introduction to readers, is also in the good value class. The company offers the shareholder true multi-product diversification, high managerial ability, outstanding research, and a long record of outstanding success. Like the rest of the industry, however, GE's shares may have also been pushed too high by speculative fervor.

Too high or not, however, GE presents an impressive record. The company is not only a major electronics producer. It is also the largest manufacturer of electric generating equipment, a major jet engine producer, a prime missile contractor and a leader in the home appliance field. Moreover, GE makes money. Last year's record sales topped $4.3 billion while earnings reached a new peak of $3.19 per share. The $2.00 annual dividend is small but more generous than many of the high-fliers that make the headlines in the electronics group. If the current market trend continues downward, GE will become an attractive buy.

Westinghouse Electric, the other giant in the field offers a slightly less diversified operation. Nevertheless its record, especially in the last few years has been enviable. After the disastrous strike of 1956 which dropped earnings to 5¢ per share, a management shake-up plus aggressive new product development has put the company back on the tracks.

In 1959 Westinghouse earned $2.43 on the newly split shares, not far under the record set in 1954. The stock, however, appears too high, having been bid up substantially in anticipation of the split. Compared to GE, for instance, Westinghouse derives too much of its revenues (77%) from capital goods, rendering it more vulnerable to cyclical swings of business activity. The electronics industry is loaded with companies that are high but offer little value. Westinghouse offers value, but it too is high.

Scanning the Field

A glance at the extraordinary price earnings ratios that characterize the more speculative electronics issues might be brushed aside as evidence of the usual exuberance that accompanies new fads, in the stock market. However, in this instance, the average investor has more reason to view the industry's prospects through rose colored glasses. For one thing, he is in good company. Not only has the investing public been fascinated with the promise of electronics, but so has America's corporate management. As a result electronics is today the most popular area for diversification by scores of companies whose usual lines are far removed from science and advanced technology. Investors, therefore, can hardly be blamed for casting a covetous eye at the field. Moreover, for many of the companies that have diversified into electronics the results have been rewarding.

Westinghouse Airbrake, for example, has usually been associated with the railway equipment and road building machinery industries. In fact, many people

Comparing the Position of Leading Electronic Companies

Industrial Devices & Controls					Business Machines				Radio and Television				
General Electric	Raytheon Co.	Texas Instru-ments	Westing-house Air Brake	Westing-house Electric	International Business Machines	National Cash Register	Pitney-Bowes	General Telephone & Electronics	Motorola	Philco Corp.	Radio Corp. of America
$ 274.3	$ 11.3	$ 12.0	$ 37.2	$ 321.0	$425.0	$ 41.5	$ 2.8	$ 671.7	$ 17.8	$ 45.1	$245.2
—	5.7	$ 3.2	—	$ 44.0	—	—	—	$ 191.1[1]	—	$ 10.0	$ 14.5
8[illegible],282	3.423	3,914	4,206	17,340	18,269	7,577	4,329	22,009	1,975	4,075	14,271
$ 715.8	$ 34.1	$ 19.1	$ 80.5	$ 581.7	$1,060.0	$ 141.0	$ 9.5	$1,069.7	$ 23.8	$ 67.3	$288.6
$[illegible],016.2	$ 57.3	$ 49.5	$ 69.0	$ 641.5	$2[illegible]8.4	$ 68.6	$ 22.8	$ 452.6	$ 79.4	$ 85.8	$279.5
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	1/3/60	12/31/59
$[illegible],349.5	$494.2	$ 193.2	$209.4	$1,910.7	$1,309.7	$ 419.0	$ 57.5	$1,081.0[2]	$289.5	$ 397.8	$1,388.4
$ 119.9	$ 4.3	$ 8.1	$ 4.8	$ 46.7	$204.6	$ 19.4	$ 2.9	$ 70.1	$ 3.7	$ 5.2	$ 23.6
$ 275.0	$ 11.3	$ 14.7	$ 11.1	$ 73.6	$154.5	$ 23.0	$ 4.7	$ 88.3	$ 13.2	$ 8.3	$ 38.4
$ 10.6	$ 3.6	$ .7	$ 2.3	$ 11.0	$ 15.4	$ 2.1	$ .2	$ 22.5	$ 1.8	$ 1.9	$ 8.3
$ 280.2	$ 13.3	$ 13.8	$ 11.3	$ 84.2	$145.6	$ 19.0	$ 4.4	$ 71.3	$ 14.1	$ 6.8	$ 37.0
11.8%	5.5%	14.7%	9.4%	7.3%	22.2%	9.0%	21.0%	—	9.4%	4.4%	5.7%
6.4%	2.7%	7.3%	5.4%	4.5%	11.1%	4.5%	7.6%	6.7%	4.9%	1.8%	2.9%
19.2%	16.8%	24.9%	10.1%	9.5%	17.2%	11.3%	13.6%	8.4%	17.0%	6.6%	12.4%
$ 3.19	$ 3.89	$ 3.59	$ 2.71	$ 4.86	$ 7.97	$ 2.52	$ 1.05	$ 3.24	$ 7.17	$ 1.67	$ 2.59
$ 4.05	$ 5.22	$ 5.68	$ 3.87	$ 7.64	$ 19.17	$ 5.08	$ 1.70	—	$ 9.04	$ 3.03	$ 4.46
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	1/3/60	12/31/59
$ 596.2	$ 12.5	$ 17.8	$ 7.9	$ 378.4	$314.5	$ 13.6	$ 3.1	$ 89.5	$ 9.7	$ 26.2	$ 58.4
$ 626.2	$ 52.5	$ 23.2	$ 61.7	$ 371.1	$ 35.6	$ 80.2	$ 9.4	$ 161.0[3]	$ 37.0	$ 64.8	$168.7
$ 576.8	$ 108.1	$ 29.0	$ 70.7	$ 278.9	$188.2	$ 76.8	$ 9.7	$ 169.4	$ 51.2	$ 57.0	$282.4
$1,567.3	$174.5	$ 64.8	$141.6	$ 999.2	$5[illegible]8.4	$ 171.9	$ 23.0	$ 456.3	$105.6	$ 149.8	$535.7
$1,103.8	$114.7	$ 37.2	$ 40.8	$ 231.2	$122.1	$ 79.3	$ 10.5	$ 249.1	$ 48.5	$ 49.3	$219.6
$ 463.5	$ 59.8	$ 27.6	$100.8	$ 768.0	$416.3	$ 92.6	$ 12.5	$ 207.2	$ 57.1	$ 100.5	$316.1
1.4	1.5	1.7	3.4	4.3	4.4	2.1	2.2	1.8	2.1	3.0	2.4
$ 679.6	$ 26.1	$ 40.7	$ 39.0	$ 336.2	$762.7	$ 85.7	$ 29.3	$1,285.0	$ 33.4	$ 45.4	$210.2
$2,561.5	$206.2	$ 106.0	$191.2	$1,498.1	$1,390.6	$ 289.0	$ 53.2	$2,124.8	$149.7	$ 204.7	$804.9
$ 6.76	$ 3.67	$ 4.56	$ 1.83	$ 21.82	$ 17.21	$ 1.79	$ .72	$ 7.04	$ 4.94	$ 6.43	$ 4.09
14.4%	10.6%	12.0%	29.4%	19.4%	2.7%	19.1%	17.8%	—	12.8%	16.3%	12.1%
40.0%	30.0%	35.9%	43.6%	37.1%	6.6%	40.7%	42.2%	—	35.3%	43.2%	31.5%

1—Includes subsidiaries.
2—Combining manufacturing & telephone subsidiaries.
3—Manufacturing subsidiaries.

still think that this is the company's basic business. Actually, a full 30 percent of all revenues in 1959 derived from the company's relatively new Melpar Division, a company firmly entrenched in the electronics and missile fields. Just a few short years ago, Melpar employed under 100 people. Today it utilizes 6,000 workers including top-flight electronics engineers, who are contributing in a major way to our national defense effort.

For Westinghouse Airbrake the operations of this division have been a boon that has sharply reduced its reliance on the cyclical rail and roadbuilding equipment industries. As a result earnings have been far more steady than at any time in the past. In the recent recession, for instance, earnings declined, totalling $2.10 per share in 1958 compared with $2.89 in 1957. But just a few years back a comparable recession would have toppled earnings to zero and perhaps into the loss column.

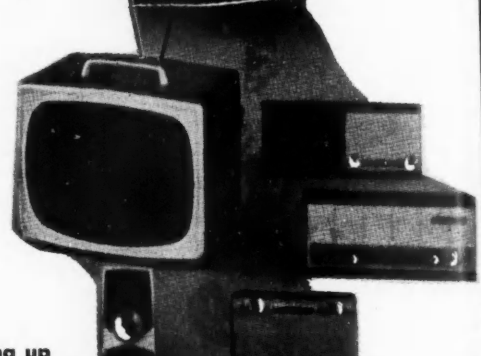
In 1959 earnings rose again to $2.71 per share despite disappointments in roadbuilding and railway equipment. In the year ahead, the projected sharp upturn in equipment spending, if it materializes, could lead to a record year for the company.

Bendix Aviation is another company that has diversified heavily into electronics. Over the last several years Bendix has gradually been transformed from an auto and aircraft parts producer to a major missile and electronic contractor. However, Bendix is also a good reminder that electronics is not necessarily a magic key to rising profits. The company's transition has been a successful one in terms of contracts and prestige, but there has been no profit growth for five years. True, earnings in 1959 of $5.37 per share were much better that the $4.18 shown in 1958. But the gain merely brought the earnings back to the level of 1957 and the year before.

Scores of other companies have followed the same path with varying degrees of success. **Thompson-Ramo**, also a former auto parts producer has had about the same results as Bendix. **American Chain & Cable** has managed to stabilize its earnings somewhat through electronics but earnings growth has still not materialized. Nevertheless, the fascination among corporate managers continues and each week sees additional companies forming or buying electronic subsidiaries.

Few, however, have gone as far as **Avco** and **Daystrom.** Both of these companies today are primarily producers of electronic or allied equipment, yet just a few years ago their major endeavors were far afield. **Avco** jumped with little success from one defense industry to another all through the postwar era, finally settling on electronics and missiles a few years ago. Some residues of former businesses still remain, notably some farm equipment and a small line of home appliances, but basically Avco today is a defense contractor. Initially, the swing to electronics was rewarding. Earnings were either non-existent or nominal *(Please turn to page 50)*

ELECTRONICS . . .
II - RADIO and TV



By STANLEY DEVLIN

- ► New factors favoring the set makers — with radio perking up
- ► Appraising varying status of the individual companies — those staging a comeback — where prospects are not as dynamic
- ► 1960 outlook for each

ONE of the enigmas of the electronics industry is that both exciting new endeavors and prosaic activities exist side by side. Not many years ago, radio, and then television, were exciting in their own right, and existed on the outer borders of the field. Today they command relatively little attention from research minded organizations. In the space age mundane devices lose their thrill quickly.

Nevertheless, it is in just this area that most of the profits for many of the electronics companies is derived. For missiles, satellites and experimental military equipment may be challenging, but their profit potential is still limited.

Fortunately, after several years of poor operating records the radio and television set producers are back on the upgrade. Earnings have been improving for almost two years now, and from all indications 1960 should be the best year since television first made its impact. Of course much will depend on the nature of the economy in the months ahead, but even if 1960 should prove less buoyant than initial forecasts had indicated, there is little doubt that consumer spending will continue at a high level.

Moreover, there are two other factors at work favoring the set makers. The first is the revival of radio after several years of back alley existence in

Leading Companies In Radio and Television

	Earnings Per Share			1959 Cash Earnings Per Share	Dividends Per Share					
	1957	1958	1959		1957	1958	Current Annual Div. *	Recent Price	Div. Yield	Price Range 1959-60
Admiral Corp.	$ .41	$ .58	$1.70	*	$ —	$ —	$ —	18	—	29½-17
American Broad. Paramount Theat.	1.10	1.21	1.85[4]	*	1.00	1.00	1.00	26	3.8%	33⅜-20½
Columbia Broadcasting System	2.82	3.01	3.11	*	1.00	1.00	1.40	37	3.7	48¾-35
Consolidated Electronic Industries	—	1.23	1.65[4]	*	—	—	1.00	42	2.3	58⅞-37¼
Cornell-Dubilier	1.38	.28	d1.06	*	.80	.80	.20	23	.8	30½-17⅜
DuMont (Allen B.) Laboratories	d .28	d4.08	—	*	—	—	—	6	—	9⅞- 6
Emerson Radio & Phonograph	.07	.72	1.30	*	—	3%[2]	3% [2]	13	—	26⅝-12⅛
General Telephone & Electronics	3.12	2.93	3.24	*	1.85	2.00	2.20	71	3.0	85¼-60
Hazeltine Corp.	1.39	1.50	1.70[4]	*	.70[3]	.70[3]	.80	23	3.4	33 -23
Hoffman Electronics Corp.	1.13	1.16	1.35[4]	*	.62½	.50	.60	24	2.5	37 -22¾
Magnavox Co.	1.95[1]	1.25[1]	1.44[1]	2.05[1]	.75[3]	.75[3]	1.00	33	3.0	40⅝-31¾
Motorola Inc.	4.04	3.80	7.50[4]	*	1.50	1.50	1.50	151	.9	177 -57½
Philco Corp.	.93	.61	1.67	3.05	4% [2]	2%[2]	.25	31	.8	36¾-21
Radio Corp. of America	2.56	2.01	2.59	4.46	1.50	1.50	1.50[2]	62	2.4	73¼-43⅛
Tung-Sol Electric	3.31	2.67	2.70	5.54	1.40[2]	1.40	1.40	33	4.2	54¼-32½
Zenith Radio	2.76	4.10	5.63	*	.83	1.66	3.00[4]	96	3.1	136¾-87¼

*—Based on latest dividend rate.
d—Deficit.
*—Net available at time of going to press.
1—Year ended June 30.
2—Paid in stock.
3—Plus stock.
4—Estimated.

the shadow of television. High quality programming and a greater emphasis on local coverage rather than network operations has brought a large segment of the population back to radio listening—and radio buying. Hence radio set production, after many years of decline is now on the way back, and in fact is approaching record levels.

Secondly, television has now been around long enough so that the industry is no longer completely dependent on new household formations for its market. In the past, there was a strong correlation between new family formations, home building and television set sales. For some time, however, replacement demand and the existence of cheaper models as "second" sets, has changed the pattern.

New Industry Structure

With demand increasing, the industry is now in a good position to reap some profits. The last time demand was high there were too many producers dividing up the field, reducing profit margins to low levels. Since then, however, the field has narrowed considerably as many firms failed and others were absorbed by larger organizations. As in any appliance field competition will still be keen, but now at least, those who obtain a share of the market will make profits.

Radio Corporation of America, long the dominant company in the industry, illustrates this new picture well. RCA's sales have trended upward all through the post-war era, but earnings growth did not keep pace. Last year, however, color television set operations were profitable for the first time, and margins widened substantially in radio and television set sales. Of course, RCA is a broadly diversified company in many electronics fields, but commercial sales still account for almost fifty percent of revenues.

The company is also a beneficiary of the new trend to radio listening since its NBC network is one of the two major organizations in the industry. Network operations have not been as successful as local radio station operations, but the renewed profitability of the independent stations comprising the network has worked to RCA's advantage.

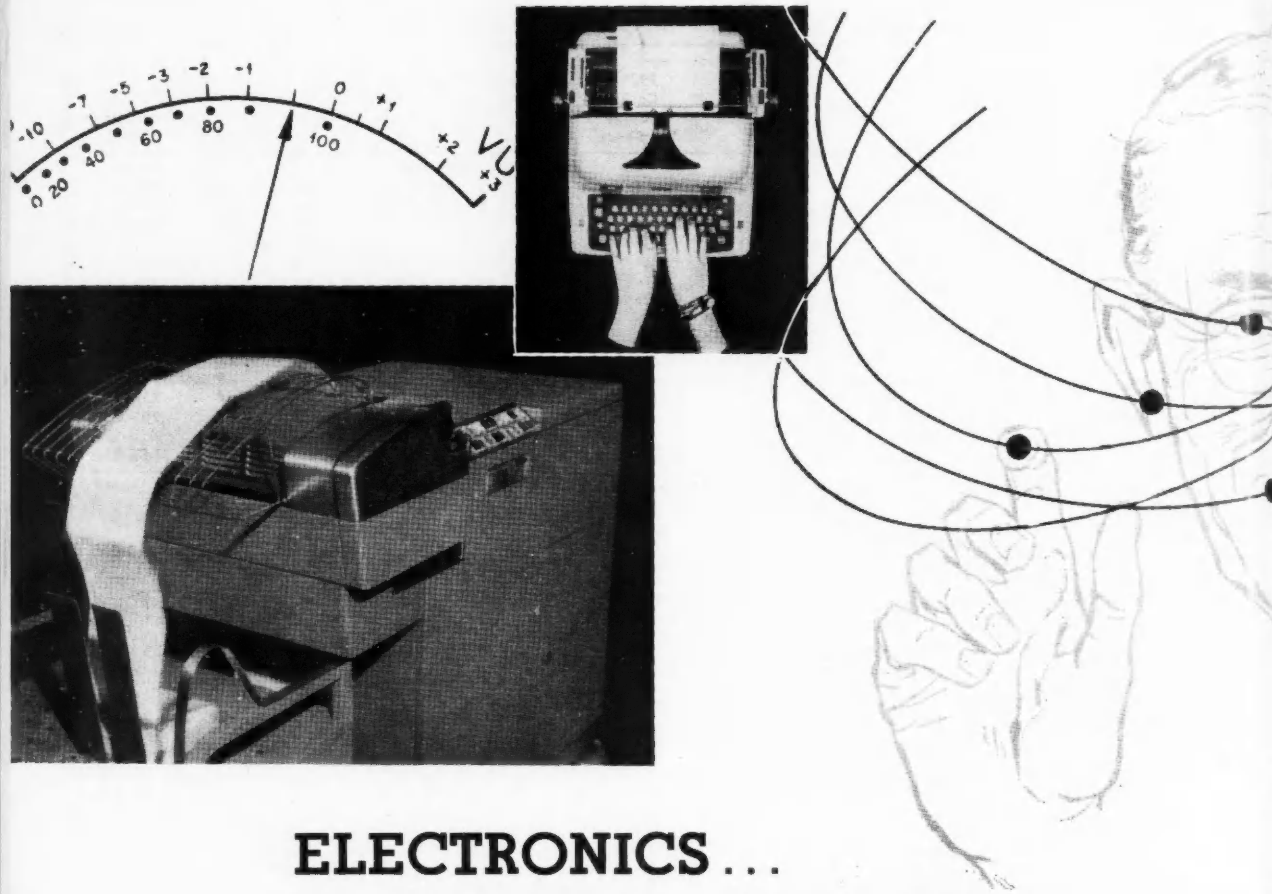
For a company as large as RCA the prime importance of television and radio is that they are no longer a drag on earnings. Moreover, profits from these operations can be used to finance the heavy research required to keep up in more exciting fields. So far, RCA has successfully invaded the computer industry, and proved its mettle as a defense contractor by landing the prime contract for the $470 million BMEWS (Ballistic missile early warning system). See our feature story on RCA in this issue for a full and comprehensive analysis of the improved outlook for this major company, which has been a pioneer in this industry.

The Quality Set Makers

Ever since the advent of the competitive struggle within the TV industry, a few companies have stood out by concentrating their efforts on high quality products unaccompanied by gimmick sales techniques.

Foremost among these has been **Zenith.** Sales have not grown as sharply as some of the other companies, but the insistence on quality both in production and in the performance of its products has worked wonders on profit margins. In 1953 the company's sales were $167 million and per share earnings were $1.91. By 1958, sales had risen to only $195 million but earnings, following a steady upward trend, had soared to $4.10 per share. In 1959, Zenith fired with both barrels. Sales spurted sharply to $250 million and earnings responded accordingly, climbing to $5.63 per share. (To what extent their hearing aid has been a factor in these earnings, would be a matter of considerable investment interest.)

Significantly, as sales have climbed profit margins have continuously widened, indicating that Zenith has the money-making know-how. In 1960, the better outlook for television set sales should carry revenues to near $300 million. If profit margins remain where they are now, *(Please turn to page 52)*



ELECTRONICS . . . III - BUSINESS MACHINES

By W. A. HODGES

- **Where research and development expenditures are starting to pay off — where further lag can be expected**
- **The wide variety of valuations — companies with the greatest proven record of success — those making progress — those sliding**
- **Earnings-dividend outlook for the individual companies**

THE year 1960 may well be an important turning point for the nation's producers of business machines. For the first time since the revolutionary development of electronic machines many companies will have sufficient productive capacity to make large scale delivery, and to begin to reap some returns from the massive research and tooling expenditures they have poured out over the last five years.

In addition, however, 1960 promises to be a better year for conventional business machines. Typewriter and adding machine sales, for example, failed to recover along with the rest of the economy in the last year. Total factory sales amounted to only $170 million compared with $190 million in 1957. However, this year, new styling plus more aggressive sales techniques promises to raise sales of conventional equipment, giving a healthy boost to sagging profit margins.

For a few companies, such as **Underwood**, the outlo[illegible] for typewriters is of vital importance, but for [illegible] of the industry the fortunes of individual companies are now inextricably tied up with the production and sale of electronic equipment. Hence, it is the sales outlook for these "brains" that must be investigated most closely. And here the evidence is promising, especially in view of the Commerce Department's recent prediction that capital spending will rise by 15 percent in 1960 to a record exceeding the $37 billion spent in 1957.

Production Finally Catching Up With Costs

For most of the companies this spate of capital spending will be welcome news. The latter half of 1959 began to show signs that shipments of new machines were increasing and that order backlogs were building up. But a prolonged period of high

Leading Companies Manufacturing Business Machines

	Earnings Per Share				Dividends Per Share					
	1957	1958	1959	1959 Cash Earnings Per Share	1957	1958	Current Annual Div. *	Recent Price	Div. Yield	Price Range 1959-60
Addressograph-Multigraph	$2.80[1]	$3.24[1]	$3.22[1]	$4.12[1]	$1.33[4]	$1.37[4]	$1.50[4]	115	1.3%	127 - 94¾
Burroughs Corp.	1.67	.97	1.08	*	1.00	1.00	1.00	29	3.4	45¾- 28¾
Electronics Corp. of Amer.	.22	.26	.21	*	—	—	—	10	—	16⅞- 7½
International Business Machines	4.91	6.93	7.97	19.17	1.72[4]	1.72[4]	3.00	407	.7	488 -385½
National Cash Register	2.57	2.19	2.52	*	1.20	1.20	1.20[4]	56	2.1	80 - 55⅛
Pitney-Bowes	1.00	1.07	1.05	*	.53[4]	.53[4]	.60	32	1.8	45⅜- 31
Royal McBee	2.68[1]	d.05[1]	.62[1]	2.30[1]	1.40	.80	—	19	—	24⅜- 16
Smith-Corona Marchant Inc.	2.16[3]	1.38[3]	.30[3]	1.14[3]	1.00	1.00	—	16	—	22¾- 12½
Sperry Rand	.96	.96	1.40[2]	*	.80	.80	.80	22	3.6	28¼- 21⅛
Telautograph Corp.	.34	.37	.45[2]	*	—	—	—	8	—	13⅜- 8
Underwood Corp.	d .80	d9.35	d14.30	*	.40	—	—	26	—	32⅜- 19⅛

†—Based on latest dividend rate.
d—Deficit.
*—Not available at time of going to press.
1—Years ended July 31.
2—Estimated.
3—Years ended June 30.
4—Plus stock.

level production and shipments will be necessary to recapture the enormous investment most companies have made in the electronics field. Few investors realize, for example, that the development of data processing systems, bank automation devices and computers involved far more than just research expenditures.

In most cases completely new plants, stocked with highly technical equipment, had to be built; workers had to be retrained to handle unfamiliar technical problems; and sales forces had to be rebuilt with scientifically minded men capable of interpreting highly technical data for non-scientific customers. To all intents and purposes none of these costs have yet been recaptured, a fact which helps explain the exceptionally low profit margins in the industry in recent years.

That a turn may be in the offing, however, can be seen in some company reports for 1959. **National Cash Register,** a major old line producer of business machines has spent the last five years trying to compensate for its late start in the electronics field. The extent of the damage can be seen from the fact that although sales have climbed from $301 million in 1955 to $420 million in 1959, earnings have made little progress. In 1955 they were $2.11 per share; results improved to $2.50 in 1956, but since then they have been in a downtrend, falling to $2.09 in 1958. A sharp increase in the last half of 1959, however, raised final earnings to $2.40, indicating that progress is finally being made.

National Cash still has problems to solve. For one thing the heavy expenditures of recent years have severely dented the company's working capital indicating that some new financing may be necessary. Nevertheless the problems of finance and new research will be eased considerably if shipments can now be maintained on a large scale. At the moment it appears that they will and that National Cash has put its most trying period behind it.

IBM Rolls Along

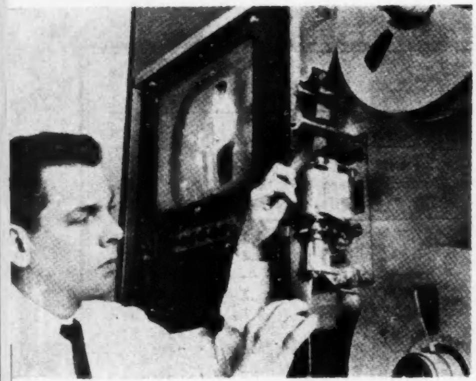
If National Cash Register's problems are typical of most of the business machine makers, **International Business Machines** stands out in sharp contrast. The giant of the field got there first, long before most other companies knew there was a new field to conquer. As a result, IBM's costs were considerably less, while profit margins were bolstered at an early stage by the advantages of dealing in a non-competitive market. To appreciate IBM's performance in this field it should be noted that earnings in 1959 were more than the company's total sales revenues in 1950. No wonder the company has been considered a prime growth issue.

With new competition ready to burst forth on the scene IBM's problems will increase in the next few years, but the company has the advantage of experience in the field plus an enviable record for turning out new and exciting products from its research laboratories. While it is doubtful that IBM can continue a sales growth pattern that averages better than twenty percent a year in the last ten years, there is little doubt that strong expansion of sales will continue.

In 1959 sales climbed to $1.3 billion, a figure almost double 1956 sales, and earnings rose handsomely to $9.50 from $7.97 per share in 1958. To maintain the same comparison, 1956 earnings were $4.16 per share or less than half the most recent figures, indicating that IBM is still increasing its profit margins At approximately 45 times earnings IBM is too high for the average investor, but its record has been extraordinary.

Progress and Problems

Others in the industry present a mixture of progress and problems. On the progress side, **Burroughs,** which has had its share of serious obstacles in trying to make up for a late start, now appears ready to reap some benefits from its long, hard pull. Its ElectroData Division is a major producer of data processing systems and will be the first to benefit from Burroughs' radical changes in its marketing procedures. In addition, the company has already successfully launched its new line of bank automation machines and has built up a substantial backlog of orders from banks all over the country. So far production has had to await the completion of facilities, but in 1960 substan- *(Please turn to page 53)*



Typical of RCA's service to business and industry are the products shown he (left to right): magnetic tape recorder for television broadcasters; the 501 ele tronic data processing system, at the new Wall Street Electronics Systems Cen ter; and the "Personalfone" belt radio.

RADIO CORPORATION OF AMERIC

HEADED FOR HIGHER GROUN

By EDWIN CAREY

- **New emphasis on computers and industrial electronics**
- **Color television becomes profitable**
- **Government contracts in sharp rise as company takes on added responsibility in missile warning program**
- **Product diversification summarized**
- **Company officials look ahead to 1965**

A vital step in the manufacture of RCA color TV picture tubes is the precise placing of color phosphor dots on the tube face. Here an engineer uses a microscope to check position of the dots, to ensure maximum contrast and resolution in the full-color picture.

SECURITY analysts turned an interested ear at a gathering in February when RCA Chairman Sarnoff made most interesting five-year predictions concerning the electronics industry and RCA. It is not surprising, therefore, that the stock has shown a firm tone since then, despite a discouraging market generally.

Aware of an impressive sales growth during the 50's (from $584 million in 1950 to last year's $1.4 billion) but also mindful of an unimpressive trend in earnings per share, the experts were evaluating basic changes that are being made to improve the company's low profit margin.

During the 1950's the electronics industry has grown from a volume of $3 billion to $14 billion. General Sarnoff predicts that by 1965 volume will increase by no less than 80% to $25 billion. Thus, electronics are growing at 3 times the rate of the nation's economy. With sales at RCA approaching the $1.5 billion annual rate, he predicts a 1965 sales level of about $2.5 billion, a 67% increase. However he left an earnings projection to the imagination of the analysts, and some of them have come up with various estimates.

If it is conservatively assumed that the present low profit margins are merely maintained over the next five years, and allowing for conversion of all debentures, which would add about 13.5% to the outstanding 14.3 million common shares, 1965 earnings would amount to roundly $4.50 compared with $2.59 earned in 1959. This would seem to be a minimum expectation, if Mr. Sarnoff's projection proves itself.

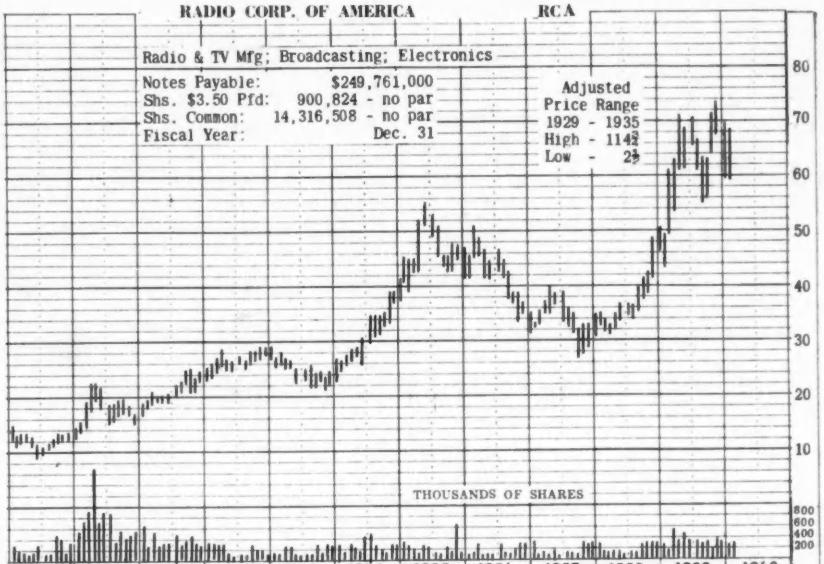
Some outside financing could very well be in the picture however, possibly later this year or next year. If common stock is involved, per-

haps by way of another convertible issue, there might be some further dilution of future earnings. On balance the earnings trend for RCA looks like an upward one for the next five years, especially if progress can be made in improving the meager 5.7% pretax profit margin.

Market Appraisal Modest

As king of all electronic companies, the stock selling in the 60-65 area appraises 1959 earnings at 25 times or less, while other companies in the electronics field are valued at 35 to 60 times earnings. This runs counter to usual experience that industry leaders command a premium over the smaller competitors.

Anti-trust litigation which has plagued the company for several years has been mentioned as reason for a lower earnings appraisal, but this factor was cleared up by a recent consent decree. There does seem hope for an improved earnings multiple to perhaps 35 times, although about a third of the company's sales are in less glamorous broadcasting and consumer fields.



	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
EARN	1.58	3.10	2.02	2.10	2.27	2.66	3.16	2.63	2.52	1.98	2.65*	
DIV.	.50	1.50	1.00	1.00	1.00	1.20	1.35	1.50	1.50	1.50	1.50	
WORK. CAP. MIL $	96.5	130.9	172.7	205.2	228.9	234.8	327.1	303.1	305.5	307.9	316.1	

* Not adjusted for 2% stock dividend.

Diversification Summarized

The accompanying table gives some idea of the many fields that RCA serves. The company is not only a very important part of the U. S. economy but plays an important part in the defense of its freedom.

Defense and Space Electronics

It is estimated that in 1955, 8% of the total U.S. defense budget consisted of electronics. In 1959 the ratio topped 16% and could exceed 20% in 1960. Thus it is not surprising that RCA's sales to the government have increased substantially in the last few years. The company is the prime contractor on the Ballistic Missile Early Warning System (BMEWS), sometimes known as the Dew Line or Polar missile defense, and has tied in with International Tel. & Tel. in a world-wide program to extend the Air Force's communications system. Virtually all of the missile programs look to RCA for electronic equipment and know-how. In 1959 government sales totaled $470 million up 54% from 1958. The firm backlog of defense orders amounted to $325 million at the end of the year. Most important was Mr. Sarnoff's statement that 85% of the backlog consisted of production contracts with only 15% in the relatively less profitable research and development category. In February the company received a $475 million contract for continuing work on BMEWS. Work on the project began in 1957 and will continue for several more years.

Moving Ahead in the Computer Field

In addition to participating in a number of large defense programs, the company operates the world's largest data processing system at Cape Canaveral. Thus it is no novice in the field of computers. According to Sarnoff the commercial market for computers has grown from just about 0 to $700 million over the past 6 years, may reach $1.0 billion in 1960 and $2.5 billion by 1965. Industrial volume for electronics generally should be up 250% over 1959 to about $7 billion in 1965.

RCA was the first company to put a fully-transistorized computer into the hands of customers. Such machines appear to have a competitive advantage because they are adaptable to all types of input-output devices including paper, magnetic tape, or punch cards. The machines are more compact and are believed more reliable.

By March 1, 1960, RCA expects to have 60 of its new 501 computer systems on order, with 15 actually delivered to customers. Since the average yearly rental is around $250,000, the computors on order should produce an annual rental income of about $15 million. However, write-offs of the machines' high development expenses and high depreciation charges will postpone net earnings for several years. It is estimated that in 1959 $14 million in pretax earnings were charged against the computor division. (This amounts to about 57¢ per share after taxes or 22% of 1959 net per share, indicating that a considerable benefit is possible when this division begins to earn a profit.) It is expected that the computer operation will break even in 2 to 4 years.

The RCA 501 is more versatile than many would think; it can be used in conjunction with existing IBM punch card systems. It is said that the small systems that rent for $7,000 per month, compared with the larger machines renting for $25,000 per month, have a huge market. (If the customer so choses the machines are available for purchase at about 50 times the monthly rental charge.) Last year the company introduced the RCA 110 control computer designed for rapid inventory control and automation of materials handling in plants and warehouses.

In addition the company is setting up a nation-

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	December 31 1958 (000 omitted)	1959	Change
Cash & Marketable Securities	$114,887	$ 58,447	—$56,440
Receivables, Net	208,384	282,439	+ 74,055
Inventories	139,701	168,698	+ 28,997
Prepayments	19,792	26,149	+ 6,357
TOTAL CURRENT ASSETS	482,764	535,733	+ 52,969
Net Property	198,579	210,261	+ 11,682
Patents, etc. net	1,511	1,499	— ,012
Investments	44,665	50,196	+ 5,531
Other Assets	8,737	7,225	— 1,512
TOTAL ASSETS	$36,256	$804,914	+$68,658
LIABILITIES			
Accts. Pay. & Accr.	$148,645	$187,377	+$38,732
Fed., Income Tax	31,442	33,477	+ 2,035
U. S. Gov .Sec.	(dr) 17,248	(dr) 6,294	— 10,954
Dividends Pay	11,942	5,071	— 6,891
TOTAL CURRENT LIABILITIES	174,781	219,631	+ 44,850
Other Liabilities	16,041	17,110	+ 1,069
Long Term Debt	249,995	245,220	— 4,775
Preferred Stock	14,575	14,575	—
Common Stock	28,062	28,812	+ ,750
Surplus	252,802	279,566	+ 26,764
TOTAL LIABILITIES	$736,256	$804,914	+$68,658
WORKING CAPITAL	$307,983	$316,102	+$ 8,119
CURRENT RATIO	2,7	2.4	- .3

wide system of computer service centers, five to be in operation by the end of the year. Thus machines will be available to customers on a time or rental basis.

Color Television Now Profitable

RCA pioneered color television at huge cost. Thus the recent settlement of anti-trust suits was disappointing in that it reduced RCA's royalty income from patents on its hard-earned color TV developments. It is estimated that the developing and promoting of color TV cost $150 million, a considerable lift from the $50 million required to develop black and white TV.

Fortunately this is all in the past. In 1959 RCA finally broke even on its production of color sets, and management recently reported that sales are running 30% ahead of a year ago.

Increased willingness of advertisers to use color TV, especially the auto producers, and the desire of dealers to offset a drop in the sales of black and white TV sets have helped promote the color sets. Black and white TV set saturation is approaching an estimated 80%, but the color sets have scarcely dented the market.

The danger of costly competition in color TV is remote considering high development costs. RCA officials estimate that it will be five years before a better tube can be offered commercially.

The company has also established itself as the leader in *Stereophonic sound*, and accounts for at least a third of all Stereophonic record album sales.

Tubes and Circuitry

RCA has developed a new electron tube called the Nuvistor which is small enough to fit inside a thimble. This could revolutionize the tube business. It consists of metal parts and requires only 1/10 the current needed by an equivalent electronic tube. It has a longer life and can stand far more shock. It is understood that General Electric will soon produce this tube in quantity.

The company is also a leader in *miniaturized electronic circuitry. It produces two-way radios no larger than a cigarette lighter.* Experimentation with computer elements have produced components almost as compact as the human brain. Some of the more important uses for this type of work are found in the satellite and missile programs.

Various types of electronic controls have been developed to inspect materials instantaneously for quality control, and to control automated production processes. As the world's largest producer of semi-conductors, the company is expanding still further with construction of a new plant keyed for the industrial and military markets, present production going principally to the entertainment and consumer fields.

The need to tape record TV and radio programs has placed the company solidly in the field of video tape recorders; it is believed to be second only to Ampex in this line.

Various types of closed circuit TV systems are developed for use in industrial plants, such as observing the firing of an open hearth furnace in the steel-making process, or in operating railroad yards. Microwave communication systems have been installed in a number of foreign countries as well as at home for highway traffic control, for fire departments, front to rear train communication, and many other uses.

Sell NBC? Never!

General Sarnoff has been asked periodically to comment on rumors that RCA plans to sell out its broadcasting facilities. Recent denials seem strong indeed, as well they might. Not only is NBC doing very well financially, but its increasing emphasis on color TV broadcasting (not coincidental) is helping the sales of RCA color TV sets. Other networks have nowhere near the incentive to broadcast in color, but they must stay competitive.

NBC absorbs some of the higher cost of color broadcasting, and works diligently to get sponsors for the color programs. Auto producers led the way, now many sponsors are interested.

During 1958 NBC increased gross TV billings by 11.3% over 1957, a most impressive record, and bettering the dollar gain of any of its major competitors. In 1959 it looks like a repeat performance with a gain stated by management at better than 10%.

In 1958 the NBC radio network scored a 15% increase in billings, while the other networks suffered a setback during the recession year.

On an over-all basis billings from broadcasting and telecasting accounted for 23% of total sales in 1959. Over the years other RCA operations have grown even faster than broadcasting revenue. In 1950 the company classified 88% of its sales as relating to entertainment, which would include sales of radios for example as well as broadcasting revenues. In 1959 the ratio was down to 54%.

Communications Important Growth Area

The company no sooner neared completion of the vast "Turnkey" project which involved installation of fifty-seven powerful tropospheric transmitters located in the Arctic to interconnect Air Force bases all over the world, when it began new expansive projects. RCA will supply the basic radio equipment to set up a coast-to-coast microwave system to be used for telegrams by Western Union and for Army

Where Each Dollar Came From

	1959 Amount of Revenue (Mil.)	1959 Percentage of Total	1958 Amount of Revenue (Mil.)	1958 Percentage of Total	1957 Amount of Revenue (Mil.)	1957 Percentage of Total	1956 Amount of Revenue (Mil.)	1956 Percentage of Total	1955 Amount of Revenue (Mil.)	1955 Percentage of Total
MANUFACTURING & SERVICES										
Sales to Commercial Customers	$568.4	41%	$533.4	46%	$588.6	50%	$575.2	51%	$558.2	53%
U. S. Government Contracts	470.4	34	304.8	26	266.9	23	240.1	21	228.6	22
BROADCASTING	323.2	23	308.5	26	292.2	25	286.4	26	246.1	23
COMMUNICATIONS	30.4	2	26.4	2	26.0	2	23.6	2	20.8	2
TRAINING	3.1	*	2.9	*	2.4	*	2.2	*	1.4	*
Totals	$1,395.6[1]	100%	$1,176.1	100%	$1,176.2	100%	$1,127.7	100%	$1,055.2	100%

*—Less than 1%; percentage in rounded figures.

NOTE: RCA is gradually diversifying its business, so that although total sales are increasing, the percentage of the total attributuable to the enterainment field, (i.e., sales of TV sets, radios, records, phonographs, hi-fi, broadcasting, etc.) has gradually been decreasing. Thus in 1950, 88% of total sales were in entertainment lines, while other sales — to commercial users, for defense, etc. — accounted for only 12% of the total. By 1959, entertainment items had fallen to 54% of total sales while the other lines had risen to 46%.

communication. This will include equipment for 160 relay stations between Boston and Los Angeles.

RCA's Telex Service is another important project. This involves a network connecting 47 countries with the United States. Individual companies operating in these countries using automatic Teleprinters receive instant communication, often from the parent company which may be in the United States.

Many other types of communication systems are sold or leased to fire departments, highway traffic control personnel, for flight coordination around airports and for front to rear communication on freight trains. The company along with International Telephone & Telegraph was selected by the Air Force to supervise a long term program to coordinate space age communications needs through 1970.

1959 Results Reviewed

Earnings per share of $2.59, adjusted for the 2% stock dividend paid in February, compare with $2.01 earned in 1958, the gain attributed principally to the 15.6% increase in sales and to a lesser extent from internal economies. The profit margin after taxes increased to 2.8% in 1959 from 2.5% in 1958.

With net income increasing to $40.1 million from $30.9 million in 1958, retained earnings approximated $23.1 million. Added to the retained earnings was $23.6 million of depreciation to total roundly $46 million in cash generated from 1959 operations. (This is after the heavy development costs necessary to build up the computer division and compares with retained cash earnings of $29.2 million in 1958.)

Unfortunately this "cash throw-off" and some more besides is needed immediately for operations. During 1959 the company increased inventories by $29 million, and receivables by $74 million. Expenditure for new plant, not revealed in the preliminary 1959 report, was probably $26 million or more judging from the increase in gross plant (vs. $24.8 million in 1958). In further need of cash, the company dipped into its portfolio of government bonds, which was really a cash reserve, reducing it from $65.0 million to $2.0 million during the year.

Looking ahead to the much higher sales volume envisioned by 1965, possibly $2.5 billion compared with $1.4 billion in 1959, *(Please turn to page 55)*

Long-Term Operating and Earnings Record

	Products and Services Sold (Millions)	Depreciation and Amort. (Millions)	Income Taxes (Millions)	Operating Income (Millions)	Net Income (Millions)	Net Profit Margin	Net Earnings Per Share	Cash Earnings Per Share	Div. Per Share	Percent Earned On Invested Capital	Price Range 1959-60
1959	$1,388.4	$23.6	$38.4	$79.6	$40.1	2.8%	$2.59	$4.46	$1.50	12.4%	73¼-43⅛[1]
1958	1,170.6	21.8	29.5	63.3	30.9	2.5	2.01	3.81	1.50	10.4	48¼-30¼
1957	1,170.9	23.5	38.5	80.0	38.5	3.2	2.56	4.48	1.50	13.3	40 -27
1956	1,121.0	22.6	40.0	81.6	40.0	3.5	2.66	4.51	1.50	14.6	50⅜-33⅞
1955	1,050.7	19.1	52.5	100.6	47.5	4.5	3.18	4.59	1.35	18.4	55⅜-36¾
1954	938.1	16.2	42.9	85.5	40.5	4.3	2.66	4.12	1.20	17.3	39¼-22½
1953	848.8	14.0	37.4	72.9	35.0	4.1	2.27	3.57	1.00	16.2	29⅜-21
1952	690.6	11.1	35.0	67.2	32.3	4.6	2.10	3.21	1.00	15.9	29⅜-23¼
1951	596.7	11.0	30.8	62.1	31.2	5.2	2.02	3.13	1.00	16.6	25¼-16⅜
1950	584.4	8.8	50.7	96.4	46.2	7.9	3.10	4.07	1.50	24.7	23¼-12¼
10 Year aver. 1950-59	$966.0	$17.1	$39.5	$78.9	$38.2	4.2%	$2.51	$3.99	$1.30	16.1%	73¼-12¼

[1]—To March 9, 1960.

FOR PROFIT AND INCOME

What Is It?

Some call this a bear market, some a market adjustment. Regardless of semantics, what you would like to know is how much will it fall and for how long. Put that way, you know the answer is anybody's guess. Under Dow Theory, which is resurrected for debate in the financial community from time to time, a bear market was signalled on March 3 when "confirmed" by the rail average's fall under its low of last November. Of the total decline to date, 85% had been seen for the industrial average and 87% for rails when the "signal" came. A bear market can be mild — for example, 16.3% for the industrial average in 12 months of 1948-1949, against 11.1% in about nine weeks for the present sell-off up to this writing. Or it can be an avalanche, as was the 1929-1932 monstrosity footing up to 89.2%. No method of trend determination can be prophetic as regards the matter of scope and duration. So the Dow Theory has worked fairly well in long and broad market cycles, poorly in mild-to-moderate cycles. That is inherent in the time lag required for "confirmations", some having come with moderate bull or bear markets already far advanced.

Possible Analogy

Under conditions of high and slowly rising business activity, and tight credit — thus not greatly different from the present environment — there was a 10% sell-off by the industrial average in April-May, 1956, and one of 12.7% from the August, 1956, double top to February, 1957 — the latter followed by virtually a full recovery to the July, 1957, triple top. This could again be a broad trading-range market without dynamic motivation. In any event, with the picture still unclear, it could easily prove a mistake to jump to too dogmatic conclusions either way at this time.

Inside The Market

In recent trading up to this writing no stock groups have shown significant upside tendencies, as distinct from periodic ral-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Bohn Aluminum & Brass	Quar. Dec. 31	$ .59	$ .01
Anchor Hocking Glass	Year Dec. 31	2.75	2.55
Bridgeport Brass	Year Dec. 31	4.40	2.80
Wyandotte Chemicals	Year Dec. 31	2.80	1.67
Kerr-Mc Gee Oil Ind.	6 mos. Dec. 31	1.30	.73
Raybestos-Manhattan, Inc.	Year* Dec. 31	6.19	3.01
United-Carr Fastner	Year Dec. 31	3.60	2.24
Upjohn Co.	Quar. Dec. 31	.34	.23
Columbian Carbon Co.	Year Dec. 31	4.28	2.22
Neisner Brothers	Year Dec. 31	.80	.43

lies. Some have been getting better-than-average support, including baking, bank stocks, food brands, shoes, television-electronics and utilities. The following have recently been weaker than the general market: aircraft, air lines, automobiles, coppers, drugs, electrical equipment, meat packers, metal fabricating, motion pictures, railroads, rail equipment, steel and tires.

Leadership

When the market is going up you often read comment that "the leadership is good." Well, the same thing could be said on the decline. Among stocks showing greater-than-average softness in recent trading are many good quality issues. Here are a few of them: American Can, Anaconda, Atchison, Bethlehem Steel, Campbell Soup, Caterpillar Tractor, Container Corp., Firestone, First National Stores, General Motors, Goodyear, Gulf Oil, Ingersoll-Rand, Inland Steel, International Paper, Kennecott, May Department Stores, National Lead, Pfizer, Pittsburgh Plate Glass, Shell Oil, Standard Oil (New Jersey), Union Pacific and U. S. Steel.

Support

Compared with the general list, the following stocks show satisfactory to good support up to this time: American Telephone, American Tobacco, Associated Dry Goods, Beech Aircraf, Black & Decker, Borden, Brown Shoe, Central & South West, Coca-Cola, Cessna, Electric Auto-Lite, Emerson Electric, Florida Power, Florida Power & Light, General Foods, Grant, International Shoe, Kroger, Mc Graw-Hill, Murphy, National Biscuit, Pepsi-Cola, Philco, Philip Morris, Piper Aircraft, Procter & Gamble, Southern Company, Southwestern Public Service and Standard Brands.

Institutional Factor

A recent study puts institutional holdings of Big-Board stocks at $51 billion at the end of 1959, against only $9.5 billion ten years earlier. This includes mutual funds and closed-end investment companies, pension funds, insurance companies, non-profit endowment funds, etc. But it still amounted to only 17% of the total 1959 year-end value of listed stocks. Thus, individuals remain the biggest factor. The market goes up and down on shifts in sentiment and in prospects for business, profits, money rates, etc. To what extent institutional funds are a stabilizing factor is a moot point. Market declines have been moderate since 1942. But that is explained by absence of anything worse than mild business recessions, rather than by institutional support. When demand subsides, it takes little selling to put the market down. Despite the institutional factor, the industrial average fell 19.4% in three months July-October, 1957. In a four times longer period, the 1946-1947 fall was only 23.2% when institutional funds were a small factor, compared with their present role.

Coca-Cola

Following the recent 3-for-1 split, dividends started on a $2.40 basis instead of $2.20 as previously intimated by management. This brought renewed demand for the stock, now at 53 against high of a little over 56 attained earlier on the split news. Adjusted for the split, the stock's all-time high of 61 in 1948 still stands, and so does peak profit of $2.92 a share in 1949. Net last year was $2.64 a share, against 1958's $2.37. It might be something like $2.75-$2.85 this year. The big change here is a record dividend, equal to a $7.20 regular rate on the old stock, against previous peak of $6.50 total (including a $2.50 year-end) in 1959. The pay-out equals nearly 91% of 1959 earnings, possibly 84%-87% of 1960 earnings. The liberality can be justified by large cash holdings, but it suggests that further dividend boosts, if any, must be small and in line with profits. We continue to regard the stock as a good-grade income issue, without any great appreciation potential at 53, yielding about 4.5%.

Spiegel, Inc.

Following return to concentration on its original mail order business and various improvements effected therein, Spiegel had record 1959 earnings of $3.82 a share, up from 1958's nearly 44%-improved $1.67. They could reach the vicinity of $4.30-$4.40 this year, and in time exceed $5.00. Now around 32, off some 32% from high of 47½, the stock is selling around 7.5 times likely 1960 earnings, yielding 4.7% on a recently raised $1.50 dividend which is conservative with a payout less than 35%. Speculative purchases of this stock should prove profitable over a period of time.

Grant

This major operator of variety stores raised its earlier $1.50 dividend rate to $1.80 in 1955, $2.00 in 1956, $2.20 early in 1959 and $2.40 recently, the latter boost coming earlier than had been expected. For comparison, payments (adjusted for a 1945 split) were 31 cents in 1929, 50 cents in 1932 and $1.00 as recently as 1948. Earnings for the fiscal year ended January 31 reached a record $4.11 a share, despite a 13% increase in outstanding shares due to expansion financing, against the prior year's $3.71. They could reach $4.50 or so this year. The stock rose to a new high of 52¼ on the latest good dividend news and is now at 49. The indicated price-earnings ratio is around 11, the dividend yield 4.8%, the payout roughly 56% of earnings. We continue to

(Please turn to page 60)

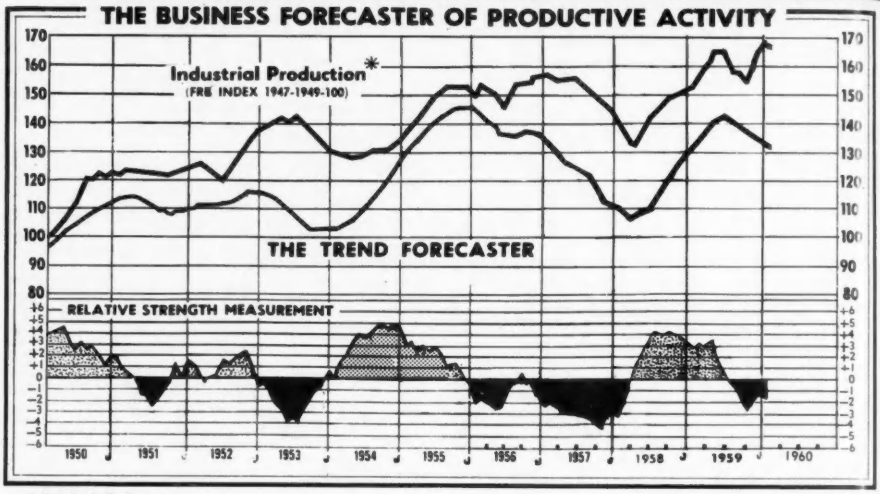
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Mesta Machine	Year Dec. 31	$5.21	$6.81
Republic Aviation Corp.	Year Dec. 31	2.35	3.48
Lehigh Coal & Navigation	Year Dec. 31	.67	.76
United Fruit Co.	Year Dec. 31	1.39	2.60
American Sugar Refining	Year Dec. 31	3.86	4.71
Republic Pictures Corp.	Year Oct. 31	.24	.54
Cincinnati Milling Machine	Year Dec. 31	1.11	1.62
Flying Tiger Line	6 mos. Dec. 31	.21	1.19
Maracaibo Oil	Quar. Dec. 31	.10	.24
Penn-Dixie Cement	Quar. Dec. 31	.68	.81

the Business

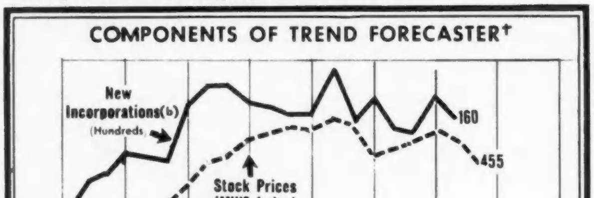
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Revised Index

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Signs of easiness continue to characterize the components of the Forecaster, with five of the indicators in downtrends of varying duration while only two indicators are improving and one is in a sidewise trend. In the declining category, are stock prices, which are close to lows of the past year, new orders, which have been receding irregularly since mid-1959, housing starts, whose long downtrend has been interrupted by minor rallies, nonresidential contracts, which are at new lows, and industrial commodity prices, which have fallen from highs made late last year. Among the indicators only hours worked and business failures (inverted) are maintaining any degree of strength.

Reflecting the easier trend of its components, the Relative Strength Measure, which had risen somewhat after settlement of the steel strike, has now turned down again, receding to the minus 1.5 level. In this zone, it is predicting some contraction of business activity in the months ahead but no sharp decline.

sAnalyst

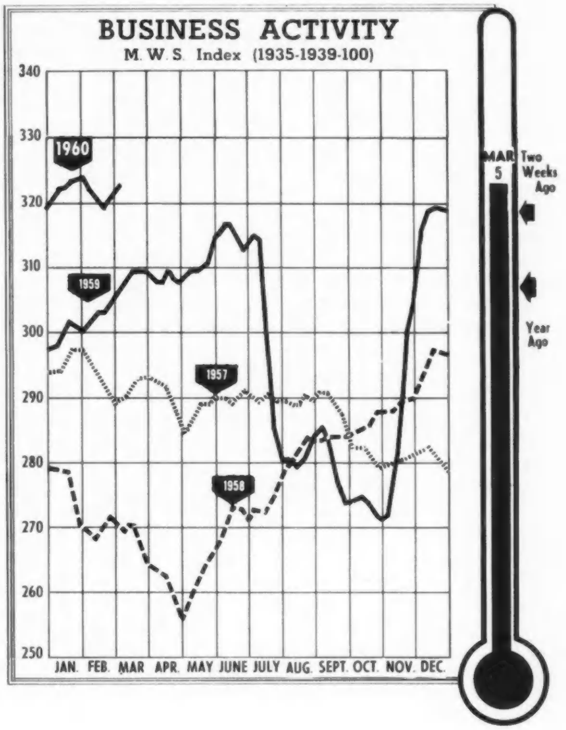
CONCLUSIONS IN BRIEF

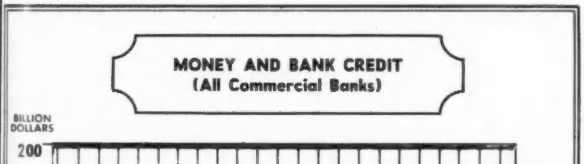
PRODUCTION—Industrial output declining slowly as heavy stockpiling fills manufacturers' pipelines, but further decline in production will be partly cushioned by rising capital expenditures.

TRADE—Retail sales still somewhat under 1959 peaks, but the trend will continue moderately upward as consumers resume normal buying pattern. Advent of Spring could spark stronger demand for autos and appliances.

MONEY & CREDIT—Money rates have dipped sharply in recent weeks as result of a lull in private borrowing and a reduced rate of government financing. Interest rates should firm somewhat this Spring as business remains high and the Federal Reserve maintains rein on credit.

COMMODITIES—Foods and farm products push higher as bad weather temporarily disrupts distribution. Prices of industrial materials still declining but should stabilize as surpluses are marketed, new production cut, and demand picks up.





*Demand deposits of all banks plus currency outside the banks.

THE curtain of strike-distorted statistics that shrouded the business outlook to some extent in recent months, has now begun to lift and the outline of the economic picture in the period ahead is beginning to appear with some accuracy. Recent data have made it clear that the extremely high level of production induced by the drive to rebuild strike-depleted inventories is tapering off. At the same time, there are reliable indications that the adjustment to more tenable levels need be neither sharp nor prolonged.

What disturbed some observers in recent weeks, were indications that manufacturers' incoming orders were below shipments, which in turn were below output. The resulting surplus has been going into inventories, which since the turn of the year, have been rising at a $12.0 billion annual rate. With stockpiles, in the aggregate, already above pre-strike highs, and with steel and other shortages being quickly alleviated, it was feared that necessary cuts in the rate of inventory accumulation would trigger a sharp and sudden downturn.

What the prophets of imminent recession forgot, however, were the expansionary forces that are still present in the current phase of the business cycle. First and foremost of these is capital spending, as discussed in the article, "Capital Spending Provides First Major Optimistic Development In Some Time," starting on page 8 of this issue. We would point out here that businessmen are now planning to increase their expenditures for new plant and equipment by

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* † (FRB)	1947-'9-100	Feb.	167	168	155
Durable Goods Mfr.	1947-'9-100	Feb.	179	181	160
Nondurable Goods Mfr.	1947-'9-100	Feb.	158	159	150
Mining	1947-'9-100	Feb.	126	128	126
RETAIL SALES*	$ Billions	Feb.	18.1	18.1	17.6
Durable Goods	$ Billions	Feb.	6.0	5.9	5.9
Nondurable Goods	$ Billions	Feb.	12.1	12.2	11.7
Dep't Store Sales	1947-'9-100	Feb.	140	146	140
MANUFACTURERS'					
New Orders—Total*	$ Billions	Jan.	30.7	29.7	28.5
Durable Goods	$ Billions	Jan.	14.7	14.2	13.9
Nondurable Goods	$ Billions	Jan.	16.0	15.5	14.6
Shipments*	$ Billions	Jan.	30.8	30.8	28.1
Durable Goods	$ Billions	Jan.	15.0	15.4	13.5
Nondurable Goods	$ Billions	Jan.	15.8	15.4	14.6
BUSINESS INVENTORIES, END MO.*	$ Billions	Jan.	90.4	89.4	85.6
Manufacturers'	$ Billions	Jan.	53.2	52.4	49.5
Wholesalers'	$ Billions	Jan.	12.7	12.6	11.9
Retailers'	$ Billions	Jan.	24.5	24.3	24.2
Dept. Store Stocks	1947-'9-100	Jan.	160	161	152
CONSTRUCTION TOTAL	$ Billions	Feb.	3.6	3.7	3.5
Private	$ Billions	Feb.	2.7	2.7	2.5
Residential	$ Billions	Feb.	1.4	1.5	1.4
All Other	$ Billions	Feb.	1.3	1.2	1.1
Housing Starts*—a	Thousands	Feb.	1115	1210	1403
Contract Awards, Residential—b	$ Millions	Jan.	927	993	1022
All Other—b	$ Millions	Jan.	1266	1231	1297
EMPLOYMENT					
Total Civilian	Millions	Jan.	64.0	15.7	62.7
Non-Farm *	Millions	Jan.	53.0	52.9	51.1
Government *	Millions	Jan.	8.3	8.3	8.0
Trade *	Millions	Jan.	11.6	11.5	11.2
Factory *	Millions	Jan.	12.5	12.4	11.9
Hours Worked	Hours	Jan.	40.4	40.5	39.9
Hourly Earnings	Dollars	Jan.	2.29	2.27	2.19
Weekly Earnings	Dollars	Jan.	92.52	91.94	87.38
PERSONAL INCOME*	$ Billions	Jan.	393	392	369
Wages & Salaries	$ Billions	Jan.	268	265	249
Proprietors' Incomes	$ Billions	Jan.	60	60	59
Interest & Dividends	$ Billions	Jan.	38	37	34
Transfer Payments	$ Billions	Jan.	27	28	26
Farm Income	$ Billions	Jan.	17	17	17
CONSUMER PRICES	1947-'9-100	Jan.	125.4	125.5	123.8
Food	1947-'9-100	Jan.	117.6	117.8	119.0
Clothing	1947-'9-100	Jan.	107.9	109.2	106.7
Housing	1947-'9-100	Jan.	130.7	130.4	128.2
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Jan.	111.4	111.8	111.3
Bank Debits*—g	$ Billions	Jan.	92.0	95.8	87.9
Business Loans Outstanding—c	$ Billions	Jan.	30.8	31.4	31.4
Instalment Credit Extended*	$ Billions	Jan.	4.2	4.0	3.9
Instalment Credit Repaid*	$ Billions	Jan.	3.8	3.8	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Jan.	4.9	7.6	4.5
Budget Expenditures	$ Billions	Jan.	6.2	6.8	6.8
Defense Expenditures	$ Billions	Jan.	3.5	4.2	3.9
Surplus (Def) cum from 7/1	$ Billions	Jan.	(6.9)	(5.6)	(13.3)

PRESENT POSITION AND OUTLOOK

almost $3 billion in the next six months or so, to which should be added the strong stimulus to other sectors that this type of spending always provides.

Furthermore, consumers, after an especially severe winter, are coming out of hibernation, and their outlays for tangible goods are beginning to move upward from recent depressed levels. Although the sizeable consumer debt will militate against a buying spree, nevertheless high personal income should enable the public to maintain a healthy rate of expenditure.

The forces of expansion that are now present in the economy may not fully counterbalance the areas of contraction. If capital spending lives up to expectations, however—and corporate appropriations for this purpose indicates that it will—then they should be potent enough to keep business at relatively high levels in the period ahead.

* * *

TREASURY BONDS have put on a display of strength in recent weeks that has been unmatched since the recession-tinged days of late 1957, when the Federal Reserve was anxiously loosening the monetary reins. This time the price advance (and the concomitant decline in yields) has come while the Fed has taken no overt action.

Extent of the gains is illustrated by the medium-term 2½s of 1972-'67, which went from a 79½ low in early January of this year to 85¾ a bare two months later, topping their 1959 high in the process. Other bonds have followed a similar course and the "magic fives" of 1964 have risen to a point where they yield only 4¼%.

Although the pace of the advance in Treasury obligations has been swift, it is not especially surprising in view of the sharp shift in business sentiment in recent weeks, from exaggerated optimism to unalloyed pessimism, the concomitant break in the stock market and the fundamental underlying factor of a reduced demand for credit as the result of the Treasury's budget surplus, which has obviated the need for extensive governmental borrowing. Based on these factors,

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter IV	1959 Quarter III	1959 Quarter II	1958 Quarter IV
GROSS NATIONAL PRODUCT	483.5	478.6	484.5	457.1
Personal Consumption	317.0	313.3	311.2	299.1
Private Domestic Invest.	69.7	67.0	77.5	62.3
Net Exports	—0.6	0.0	—1.8	5.8
Government Purchases	97.4	98.4	97.7	96.5
Federal	52.7	53.6	53.9	54.2
State & Local	44.7	44.8	43.8	42.2
PERSONAL INCOME	386.8	381.0	381.1	366.3
Tax & Nontax Payments	46.1	45.8	45.8	43.4
Disposable Income	340.8	335.2	335.3	322.9
Consumption Expenditures	317.0	313.3	311.2	299.1
Personal Saving—d	23.7	21.9	24.1	23.7
CORPORATE PRE-TAX PROFITS		46.4	52.6	44.6
Corporate Taxes		22.6	25.6	21.9
Corporate Net Profit		23.8	27.0	22.7
Dividend Payments			13.0	12.0
Retained Earnings			14.0	10.7
PLANT & EQUIPMENT OUTLAYS	34.4	34.0	32.5	30.0

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Mar. 5	323.8	320.8	307.4
MWS Index—per capita*	1935-'9-100	Mar. 5	235.8	233.5	228.7
Steel Production	% of Capacity	Mar. 12	92.9	92.8	92.0
Auto and Truck Production	Thousands	Mar. 12	189	175	168
Paperboard Production	Thousand Tons	Mar. 5	330	308	316
Paperboard New Orders	Thousand Tons	Mar. 5	366	308	370
Electric Power Output*	1947-'49-100	Mar. 5	276.1	273.9	250.1
Freight Carloadings	Thousand Cars	Mar. 5	558	553	596
Engineerings Constr. Awards	$ Millions	Mar. 10	285	506	372
Department Store Sales	1947-'9-100	Mar. 5	98	110	118
Demand Deposits—c	$ Billions	Mar. 2	59.5	59.7	60.4
Business Failures—s	Number	Mar. 3	299	277	288

PRESENT POSITION AND OUTLOOK

money that had fled to stocks, flooded back into the bond market and this was reinforced by demand from investors who had been previously standing on the sidelines.

Anybody contemplating a speculative fling in Treasury bonds, today, however, may find that he has missed the boat. The economy appears to be in no danger of imminent collapse and demand for funds to finance increased capital outlays and heavy inventories, promises to be large, all of which could cause Treasury obligations to recede rather quickly from current levels.

* * *

CONSTRUCTION OUTLAYS—Expenditures for new construction have rebounded swiftly from last year's strike-induced lows. Outlays at seasonally adjusted annual rates were up to $55.6 billion in February, from the $50.7 billion low of last November, but a good part of the recovery merely reflects activity which had been postponed because of steel shortages.

Judging by new housing starts and nonresidential contracts, usually a good guide to actual outlays, construction activity is due to recede in the near future.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Revised index. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959-'60 High	1959-'60 Low	1959 Mar. 4	1960 Mar 11
Composite Average	492.4	436.9	438.1	439.3
4 Agricultural Implements	492.4	356.2	381.0	376.7
3 Air Cond. ('53 Cl.—100)	137.2	110.5	112.2	110.9
9 Aircraft ('27 Cl.—100)	1375.1	994.5	994.5	994.5
7 Airlines ('27 Cl.—100)	1429.4	835.7	857.7	835.7L
4 Aluminum ('53 Cl.—100)	594.5	392.0	443.1	448.3
5 Amusements	252.6	200.5	209.3	211.6
5 Automobile Accessosies	541.9	413.4	476.9	476.9
5 Automobiles	156.8	93.7	123.1	121.6
3 Baking ('26 Cl.—100)	41.3	28.5	36.4	36.8
4 Business Machines	1395.5	1172.3	1172.3	1211.8
6 Chemicals	835.5	689.4	689.4	713.4
4 Coal Mining	37.8	28.1	32.1	33.9
4 Communications	229.8	164.6	213.7	216.0
9 Construction	178.9	155.6	158.9	162.3
5 Container	1142.6	970.7	1002.0	981.2
5 Copper Mining	344.6	280.7	301.7	301.7
2 Dairy Products	163.1	138.8	157.6	156.0
5 Department Stores	143.8	119.1	139.5	136.6
5 Drugs-Eth. ('53 C.—100)	475.4	379.5	395.6	386.8
5 Elect. Eqp. ('53 Cl.—100)	369.9	268.8	332.9	332.9
3 Finance Companies	769.7	648.8	648.8	662.2
5 Food Brands	470.0	406.3	423.8	419.3
3 Food Stores	279.6	244.4	263.1	268.1

(Nov. 14, 1936 Cl.—100)	High	Low	Mar. 4	Mar 11
High Priced Stocks	306.7	268.4	272.5	271.9
Low Priced Stocks	665.9	585.4	586.6	593.6
5 Gold Mining	1064.2	853.0	1023.6	1064.2H
4 Investment Trusts	190.6	151.8	155.2	151.8L
3 Liquor ('27 Cl.—100)	1624.8	1248.7	1248.7	1278.7
7 Machinery	563.2	452.4	465.7	465.7
3 Mail Order	467.5	253.1	391.5	386.9
4 Meat Packing	277.1	204.4	262.2	259.4
4 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	192.6	190.6
9 Metals, Miscellaneous	409.6	335.7	335.7	339.4
4 Paper	1310.5	994.8	994.8	1033.1
16 Petroleum	885.5	639.1	646.6	649.1L
16 Public Utilities	365.4	334.9	348.6	348.6
6 Railroad Equipment	104.1	86.9	92.8	92.8
18 Railroads	78.2	61.3	61.3	61.3
3 Soft Drinks	726.6	599.8	704.8	704.8
11 Steel & Iron	476.4	385.9	395.2	385.9L
4 Sugar	144.7	79.6	83.3	79.6L
2 Sulphur	863.3	575.5	575.5	575.5
11 TV & Electron. ('27—100)	111.3	65.6	96.6	98.7
5 Textiles	259.6	176.6	196.5	200.9
3 Tires & Rubber	281.8	212.0	217.1	212.0L
5 Tobacco	194.9	172.9	184.3	184.3
3 Variety Stores	371.2	331.4	356.6	356.6
14 Unclassif'd ('49 Cl.—100)	295.4	239.8	260.9	268.8

H—New High for 1959-1960. L—New Low for 1959-1960.

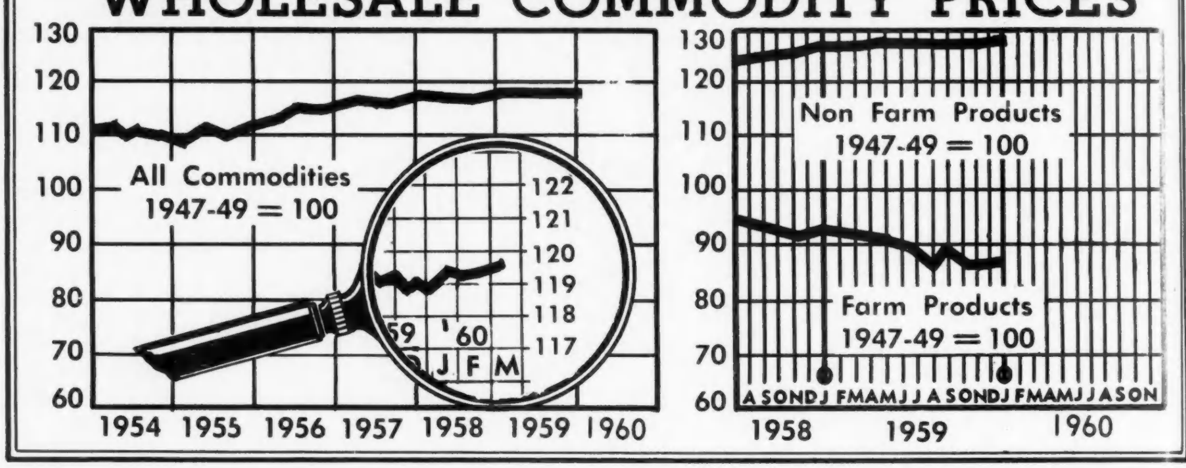
Trend of Commodities

SPOT MARKETS—Spot prices of foodstuffs and industrial raw materials followed sharply divergent trends in the two weeks ending March 11 and the result was a stalemate for the BLS daily index of 22 leading commodities. The food component of the index advanced 1.9% in the period under review as the result of bad weather, while industrial materials fell 1.5%. In the latter group, metals were especially hard hit with copper scrap, steel scrap and tin, all declining. Weakness also was noted for hides, rubber and wool tops.

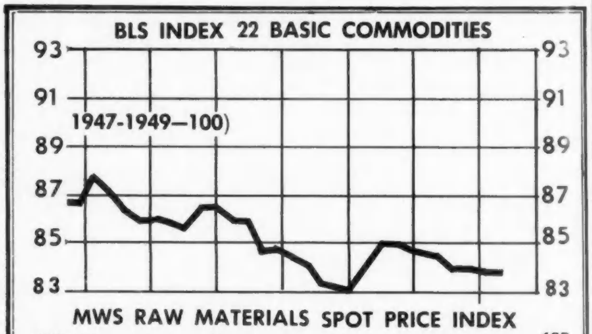
Among the rank and file of commodities, strength in farm products and foods accounted for a gain of 0.3% in the BLS weekly wholesale price index in the two weeks ending March 8. The index closed at 119.7, not far from the all time high reached last year.

FUTURES MARKETS—Futures prices were mixed in the two weeks ending March 11. Soybeans, oats, lard and hides advanced, sugar, coffee, cocoa, copper and zinc declined, while wheat, corn, cotton, wool and zinc showed no definite trend, with some months improving while others gave ground. The Dow-Jones Commodity Futures Index lost 0.98 points to close at 144.85, not far from last year's low.

Wheat futures were mixed in the period under review. Old crop options were strong while new crop futures lagged. May wheat advanced 2¼ cents to close at 201¾, buoyed by indications of improved export buying and the belief that "free" supplies of wheat will be small as the crop year advances. The new September option lost ½ cent as favorable weather fostered belief that a large crop was in the making.

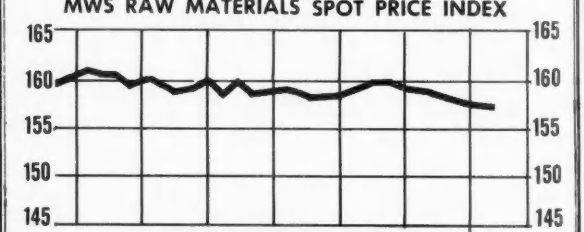


BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Mar. 8	119.7	119.3	119.6	60.2
Farm Products	Mar. 8	89.0	87.3	90.8	51.0
Non-Farm Products	Mar. 8	128.5	128.6	128.1	67.0
22 Sensitive Commodities	Mar. 11	83.7	83.8	86.0	53.0
9 Foods	Mar. 11	74.2	72.8	79.7	46.5
13 Raw Ind'l. Materials	Mar. 11	90.8	92.2	90.4	58.3
5 Metals	Mar. 11	93.4	96.7	98.5	54.6
4 Textiles	Mar. 11	79.8	79.9	76.3	56.3



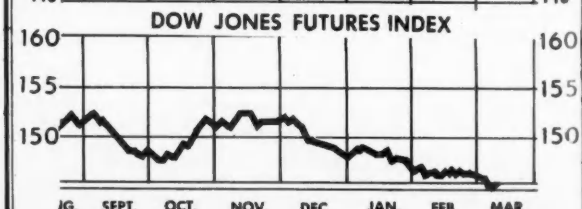
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152 1	146.5	147.9	176.4	74.3
Close of Year	158.3	152.1	152.1	180.8	83.5



DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.7	147.2	153.8	174.8	55.5
Close of Year	147.8	147.6	166.5	189.4	84.1



What's ahead for GENERAL ELECTRIC in the 60's

As the 1960's unfold, General Electric will make a vigorous new bid to realize a new era of growth through imaginative expansion of service to customers. Record 1959 results form the base upon which the Company is building for the decade ahead:

- **Sales** climbed to a record exceeding $4.3 billion.
- **Earnings** rose to a new high of $3.19 per share.
- **A new high of 404,431 share owners** of record received dividends – the 61st consecutive year of General Electric dividends.
- **Employee compensation** at General Electric set new records both for the total amount ($1,785 million) and for the average per employee ($7,226).

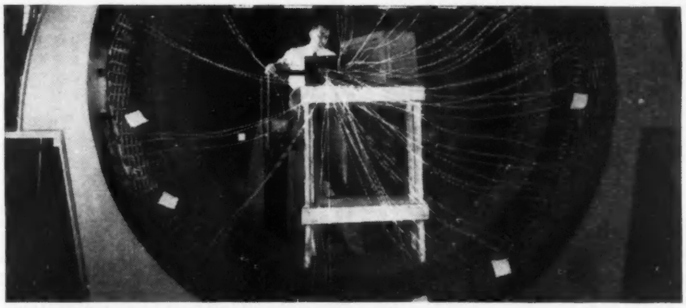
1959 developments indicate many of the areas of growth potential in which the Company is focusing attention. These include:

- **Advanced industrial systems** being developed by General Electric demonstrate the Company's "unique capability" for combining experience in the electrification of industry with new skills in new electronics technologies.
- **Flexible automation:** New machine-tool controls developed by General Electric enable small-lot manufacturers to automate.
- **International trade** is receiving fresh emphasis from General Electric through formation of the new International Group to consolidate export trade and foreign manufacturing operations.

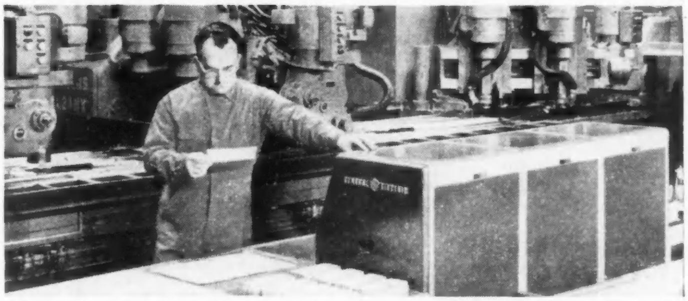
Other examples are at right. You'll find details in General Electric's 1959 Annual Report, now available.

If you would like a free copy of the Annual Report, write Dept. 21-F, 570 Lexington Ave., New York 22, N. Y. If you own General Electric shares held in the name of a broker, or in the nominee name of a bank or trust company, write to Dept. GC-12 at the same address, and we will mail you regularly our share owner publications.

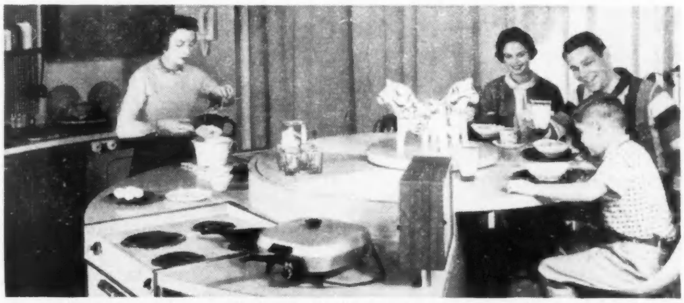
HIGHLIGHTS FROM THE GENERAL ELECTRIC 1959 ANNUAL REPORT



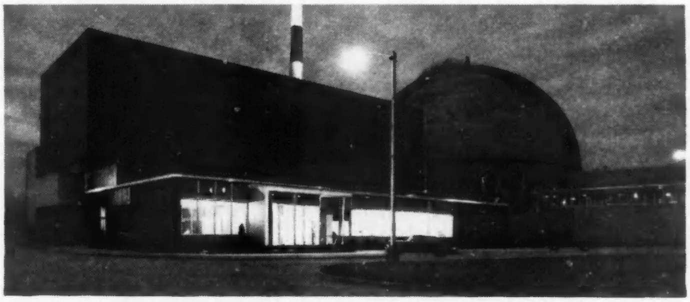
More efficient electric power systems continue to represent a major area of potential growth for General Electric. Above: new cost-saving method developed for testing big motor's ability to withstand unusual electrical overloads.



Electronics for industrial automation offers a new direction of growth based on General Electric's long experience in helping customers apply electric power to their operations. Above: machine guided by punched-card controls.



Potential market for total electric living is shown by gap between the $575 worth of electrical home equipment in average new U.S. home today, compared with $3,020 worth in a modestly priced Gold Medallion Home.



Accelerating atomic-power development: The largest all-nuclear power station in the U.S. is being built by General Electric to supply the Chicago area with 180,000 kilowatts. It will begin operations this year.

Progress Is Our Most Important Product

GENERAL ELECTRIC

Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities at* reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Curtis Wright Corp.

"What do you think of Curtiss Wright Corp.?'

V. L. Butte, Montana

Curtiss-Wright is a leading manufacturer of aircraft engines, propellers and other parts. The company is diversifying its output into other fields and new products. Due largely to the shift to jet propulsion of aircraft, earnings of the company have been in a declining trend since 1956. For the year 1959, earnings amounted to $1.71 per share, as against $3.11 for 1958. The quarterly dividend has just been reduced from 37.5 cents to 25 cents per share, payable April 6th to stockholders of record March 7th. The price of this stock has declined substantially, probably reflecting the greater part of recent adverse news. We would suggest temporary retention. However, on market strength, we would be inclined to sell at least part of your holding. If income is important to you, you would get greater return on Curtiss Wright A stock now selling at 34 and paying $2 and having priority in payment tantamount to a preferred stock. The A stock is convertible into common share for share so any improvement in the common is reflected in the A shares also.

Minute Maid Corp.

"I would appreciate your opinion of Minute Maid stock."

H. L. M., Sarasota, Florida

Minute Maid Corp. is engaged in the production and distribution of frozen citrus concentrates, including orange juice. The company also markets non-refrigerated fruit drinks. Over a period of years, earnings have shown wide fluctuations, although earnings rose from $1.60 in 1957 to $2.86 in 1958 and maintained that level reporting $2.87 in 1959. The company leases about 5150 acres and owns around 14,500 acres of land. There are approximately 1,600,000 shares of common stock outstanding. If you now own this stock, we recommend retention at this time. However, if you are considering purchase of this issue, we are not recommending new commitments in view of general uncertainties.

Columbia Gas System

"I would like your opinion of Columbia Gas System".

S. M. C., Southington, Conn.

Columbia Gas System is a major natural gas distributor in a number of middlewestern states. Recent earnings have shown stability, rather than growth, with $1.40 reported in 1959 versus $1.41 in 1958. On the $1.00 per share annual dividend, well secured, the stock provides a good 5% yield and we recommend its retention.

Seaboard Air Line Railroad

"May I please have a report on Seaboard Air Line Railroad?"

S. J. M., Westminster, Md.

Seaboard Air Line Railroad operates over 4000 miles of road in Virginia, North Carolina, South Carolina, Georgia, Alabama and Florida. The area served embraces the most productive portions of the south and represents a growing territory. The road obtains heavy passenger traffic from Florida resort business. While revenues have been in a long term rising trend, earnings in recent years have declined moderately, due to higher costs. However, a possible merger with Atlantic Coast Line would result in large savings. For the year 1959, earnings increased to $3.52 per share, from $3.14 in 1958. For the month of January 1960 net income declined to $1,400,409 from $1,932,312 a year previous. The annual dividend rate is $2.00 per share. At the current price of about 35, the stock offers a substantial yield and we would recommend its retention.

Evans Products

"Please advise me on Evans Products."

S. J., Long Beach, N. Y.

Evans Products is engaged in the production of plywood and other wood products, which represent about one half of total sales. The company also manufactures freight loading equipment and other items. The industry is competitive and residential building, on which the company is in good part dependent, is tending to decline. For the year 1958, earnings receded to $1.07 per share, from $1.66 in 1957. While earnings for the first 9 months of last year rose to $1.43 per share from 73 cents a year previous, the outlook over coming months appears to be

(Please turn to page 58)

RCA REPORTS TO YOU:

NEW ELECTRONIC "BRAIN" CELLS FIT IN THE EYE OF A NEEDLE

Basic building block for compact, electronic "thought savers" will serve you in your office, in defense—someday, in your home

• Today, science not only is working on labor-saving devices—but on *thought-saving* devices as well.

These "thought savers" are electronic computers —wonder-workers that free us from tedious mental work and are capable of astoundingly rapid computations. Naturally, the more *compact* these computers can be made, the more applications they can have. Not only in industry, defense and research—but in the office and ultimately in the home.

"Squeezing" exacting components

A big advance has recently been made by RCA research towards making these "thought savers" smaller than ever before, for broader than ever use.

Take, for example, the new "logic" circuit which actually fits in the eye of a needle. It is a new computer component developed by RCA.

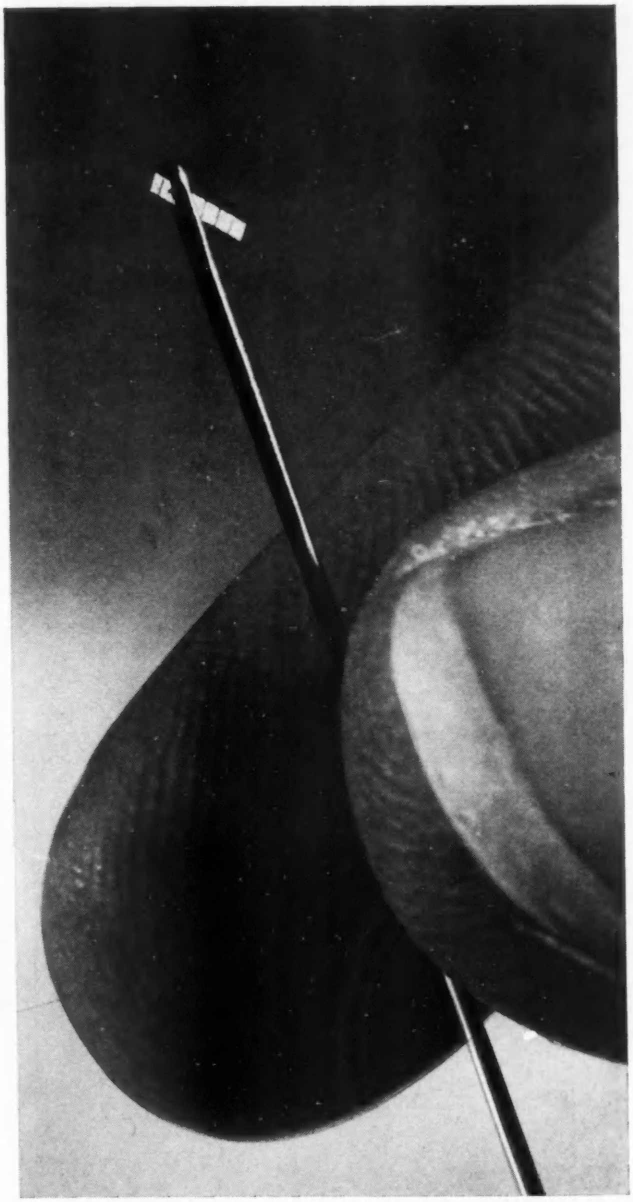
Today, the electronic functions of this micro-miniature device require a whole fistful of wires, resistors, transistors and condensers.

These tiny units will calculate, sort, "remember," and will control the flow of information in tomorrow's computers. Yet they are so small that 100,000,000 of them will fit into one cubic foot!

Cutting computers down to home size

This extreme reduction in size may mean that someday cigar-box-size electronic brains may help you in your home—programming your automatic appliances, and keeping track of household accounts.

Remarkable progress in micro-miniaturization is another step forward by RCA—leader in radio, television, in communications and in all electronics—for home, office, and nation.



Needle's eye holds electronic "brain" cells— Photograph shows how new RCA "logic" element can be contained in the eye of a sewing needle.

RCA

RADIO CORPORATION OF AMERICA

THE MOST TRUSTED NAME IN ELECTRONICS

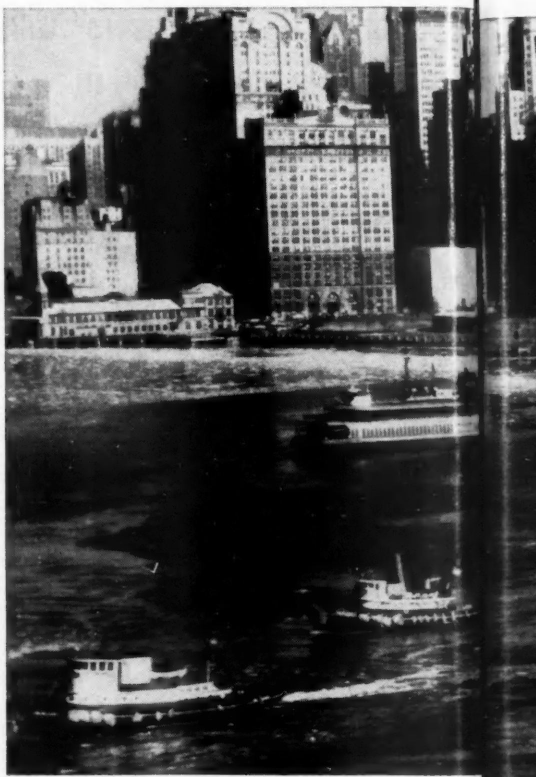
When the first USS *Independence* was commissioned in 1776, you probably could have put all the steel aboard her into one sea chest. But when the fifth *Independence* joined the U.S. fleet this year, she carried the widest variety of specialty steels ever assembled. *57,000 of her 60,000 tons are steel.*

The *Independence* is big. She carries a crew of 3,500 and her quarter mile of runways could park two luxury liners side by side. Turn her on end and she'd reach up to the 80th floor of the Empire State Building. Total working area for flight operations is over six acres.

The *Independence* is built of steel, much of it supplied by United States Steel. For the greatest possible strength and toughness U.S. Steel furnished two types of specially formulated and treated armor plate. Steel cables, strong enough to stop a landing jet bomber, were furnished by the American Steel & Wire Division of United States Steel. Her four 66½-foot, 50-ton propeller shafts were forged at the USS Homestead Works. And so it goes. From flight deck armor to the stainless steel used in her hospital, galley and crew's quarters, USS Steels play an important part in the performance of one of the Navy's finest ships.

It took three years to build *Independence*. It took 50 years of research and development to perfect the specialty steels of which she is made. *USS is a registered trademark*

57,000 tons of ste o t



Something new in tie-downs. Instead of welded tie-downs, *Independence* has dimples placed at specified points in flight and hangar deck armor. U. S. Steel developed special dies for use in a 12,000-ton press, worked with the plate while it was cold. Danger of welded-in units breaking loose from overhead blast is now eliminated.

Hammocks are a thing of the past. Pullman-type bunks with individual reading lights make crew's quarters much more comfortable.

Lots
Indep
half f

te o to sea with the USS "Independence"

man-
rew's

Lots of room, lots of steel here. Hangar deck aboard *Independence* can store 100 jets, is as big as two and a half football fields.

The Joker in Russia's Commodity — Barter and Trade Deals

(Continued from page 23)

► In one of its deals with Egypt, the Kremlin consigned to Nasser a shipment of conventional Russian arms in exchange for a large order of Egyptian cotton. The Egyptian economy turns on cotton and depends on it to a great extent for foreign trade. On receipt of the Russian shipment the weapons turned out to be obsolete. *Not only was the merchandise inferior, but Moscow on obtaining the cotton turned around and promptly sold it at a discount on the market in France and other countries which normally purchase cotton from Egypt.* Thus, by a single turn of the economic thumbscrew, the smaller country found itself a useless possessor of obsolete weapons with its normal channels of trade disrupted — hardly a bargain in the usual sense of the term.

This example of Russian trade can be shown to have been prompted by economic motives. While Russian cotton could have been sold abroad and foreign exchange earned thereby, it was economically more advantageous for Moscow to sell a better quality of cotton for more foreign exchange, especially when this finer quality could be obtained from Egypt in return for conventional weapons, an item which the Russians had in ample supplies.

One wonders whether similar economic planning is a factor in the recent agreement of Moscow to purchase a million tons of Cuban sugar a year for five years at the world price. For sugar is a commodity hardly in demand in Russia and rather than stockpile it at home, the Russians might just sell it at a discount price on the world market and reap in the consequent foreign exchange.

► Another conspicuous example of highhanded dealing on the part of the Kremlin is the hardly forgettable case involving the shipment of Russian cement to **Burma.** Under this arrangement Burma had agreed to trade a large quantity of Burmese rice for certain Soviet goods including cement. Delivery of the Russian goods was to be made at Rangoon, a port noted for its lask of storage facilities. The Russian steamer carrying the cargo of cement set sail at a time when Burma was swept by the monsoon rains.

Anticipating the possible results of the sailing, the *Burmese authorities sought to delay the shipment to Rangoon until after the monsoon season. But their pleas fell on deaf ears.* The bags of cement were delivered forthwith to Rangoon and peremptorily left on the docks. *With no warehouses available it was not longer after delivery when the rain had transformed the many bags of cement into giant blocks of concrete.*

These and many other similar instances of the overbearing Russian ruble offensive should serve to offset the image of the Soviet as a benevolent Big Brother to the underdeveloped countries.

Can We Count on Soviet Union For Normal Trade?

Other than the fact that the Soviets are arbitrary and certainly not disciples of conventional standards of behavior in their trade relationship, what else emerges from our consideration of Soviet trade? The one point that should clearly be established is that the policy and actions of the Soviet Union in its quest to expand its world trade cannot profitably be looked at from a single point of view embracing either economic motivations on the one hand or political motivations on the other. In many instances, as we have already seen, political factors exercise a positive influence. But Moscow's trade policy has been used and will continue to be used to improve its long-term economic goal of expanding trade relations. It is just fortunate for the U.S.S.R. that political and economic interests do currently coincide in its pursuit of its long-term goal.

The question then remains of the significance of the Communist goal to the Allied businessman and to the governments of the Western Alliance.

To the Allied businessman trade with the Soviet market does not fall into the normal patterns of foreign trade usually encountered by Western business. Russian foreign trade is continually being adjusted to meet the requirements of an all pervasive state economic plan. Export purchases in such a system are for the most part restricted to goods necessary to insure domestic economic balance and to develop economic self-sufficiency. Such trade is naturally unpredictable and sporadic.

Moreover, *whether the Allied businessman be a customer or a supplier, he is subject to the decisions of the Russian economic planners.* For example, if the Kremlin determines a need for foreign exchange to buy new capital equipment, it is apt to inundate the market with tin, aluminum or crude oil regardless of cost or price. Also, the bsinessman's rating as a trading partner will to a greater degree than elsewhere in international trade depend on the prevailing diplomatic climate in the Kremlin. These factors at best enshroud trade relations with the Soviet with many practical difficulties.

The significance of further Soviet trade to the governments of the West is plainly that the U.S.S.R. is interested in trade with the West only for what it can get out of us — primarily equipment for new plants. Moscow currently has little or no interest in buying refrigerators, television sets or other consumer items. Faced, then, with this desire, and mandate, to strengthen their internal economy as a showpiece to the underdeveloped countries, the Communists are not too disposed to engaging in trade wars. Rather their objective at this stage is the procurement of foreign exchange to enable them to purchase new equipment.

In Sum

Since Russia needs outside help, the leaders of the Western Alliance should coordinate and unify their foreign economic policies. While the Allies should not be prepared to sell their Communist adversaries strategic materials, *they should not sell new equipment and modern technology either without a "quid pro quo".*

If the Communist bloc wants to purchase our superior know-how, technology and

equipment, it should be permitted to do so only in exchange for economic and political considerations beneficial to the Western Alliance.

Perhaps, with this bargaining procedure put into practice, expanded commercial relations may in the long run bring about peaceful political relations. END

Dynamic Electronics Industry I — Makers of Devices and Controls

(*Continued from page* 27)

from 1952 until 1957 when a sudden electronic spurt returned $1.12 per share. However, in the following year net began to slip again falling to $1.02 and then 93¢ in 1959.

Current high levels of defense expenditures assure Avco some profitability in 1960, but the company is living proof that electronics is not an automatic wedge for high profits.

Daystrom has managed to change over from a manufacturer of metal furniture to a major electronics company. But seven years of transition has still not led to profits any greater than it had before the change. In 1952 earnings per share were $2.25. In 1958, after several years in the wonder industry they fell to $1.32. In 1959 per share net recovered to $2.40, but this figure was below 1956 and 1957.

Daystrom has an impressive line of products. It manufactures instruments, "do-it-yourself" hi-fi kits, control systems, computers and television test equipment. This broad participation in electronics should assure a reasonable return, but so far it has not been startling.

Debunking Pie-in-the-Sky

The experience of Westinghouse Airbrake, Avco, Bendix and Daystrom are worth repeating because they point up one of the most surprising facts of electronic life. In the few cases, such as these, in which we have concrete evidence of the impact of electronics on the fortunes of moderate sized companies the results prove far from sensational. Hence, these stocks have failed to run wild in the market. In other cases, however, where little or no earnings have ever been shown, speculators have no difficulty in letting their imaginations run wild.

Ampex, a relative newcomer to the New York Stock Exchange is a case in point. The company is the principal producer of specialized electronic tapes, used for recording such diverse phenomena as the flight of missiles and your favorite television program. The product has been successful. But in 1959 Ampex earned 40¢ per share, or 100 times less than the price its stock is selling for. Investors enthusiasm over the promise of magnetic tapes is understandable. But before Ampex can earn enough money to justify its exalted price it may well be an also ran in a field dominated by GE and Western Electric. GE, in fact, has already perfected a tape superior in many ways to the Ampex product.

Which product will win out is not too important. But for anyone to pay 100 times earnings for a stock whose future is wrapped up in one product highly susceptible to rapid obsolescene appears foolhardy.

Of course, companies like Ampex may win out against the giants, and may go on to become giants in their own right. Some investors are fond of pointing to RCA, which only 30 years ago was a small company struggling for existence. This is true, but these same people often forget that RCA has never returned to the high prices it sold at in 1929. In fact today it is still more than twenty points below its high when it was a pie-in-the-sky stock.

In effect, what we are saying is that a dim view of the prices of electronics shares is not the same as a bearish attitude towards electronics. This is a true growth industry. But there is a limit to the premium sound investors should pay for growth.

Texas Instruments, a star performer in the stock market is an old favorite of this magazine and was strongly recommended several years ago. But today, it has discounted its future promise many times over. Everything we foresaw for the company has come to pass. Earnings have continued to rise at a rapid rate, climbing to $3.55 per share in 1959 from $1.99 in 1958 and $.130 in 1957. Moreover, just a few years ago earnings were in the pennies. But today Texas Instruments is selling at about 170, or close to 50 times its earnings. It is no reflection on this remarkably successful company to state that at half its present price it would still be appraising its future generously.

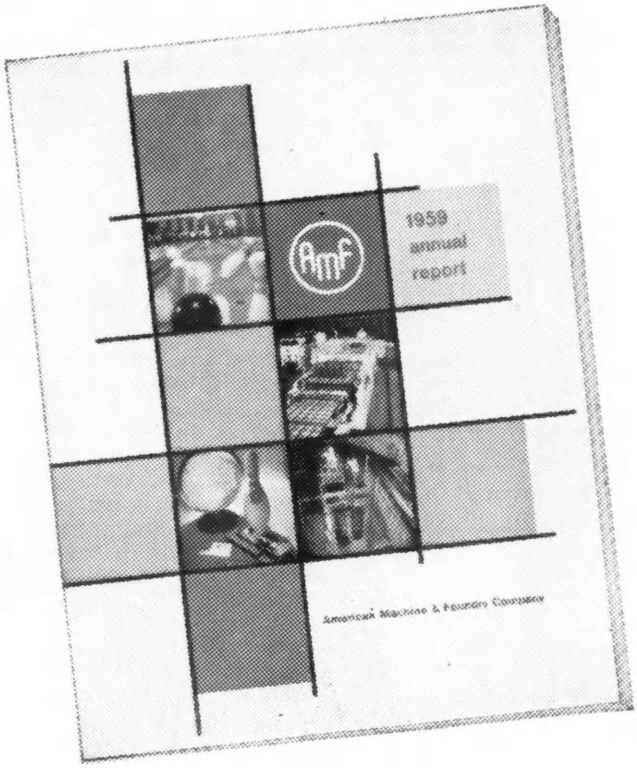
Robertshaw-Fulton, as a case in point, is second only to Minneapolis Honeywell as a producer of electrical and electronic controls for both home and industrial uses. Earnings growth has been modest, but the company has recently completed a major rebuilding program and now operates only completely modern plants. This phase of its current operations led to a sharp earnings increase in 1959 to $3.35 per share from $2.18 a year earlier. Now, the company is actively seeking acquisitions, using its sound base in the industry to broaden its position. At about $47 per share the stock is not cheap, but it is certainly not in the stratosphere as are many of its less solid competitors.

For those with the patience to wait for value there will be ample time to buy quality electronics stocks.

Summary

A sober perspective requires recognition of two things. Electronics is one of the major industries of the future, and it is one of the most dangerous areas of investment. Why? Because the history of all new industries that can be entered with small capital is essentially the same. First there is a rush of companies into the field to accomodate the tremendous demand for products. As excitement continues these companies have little trouble because an enthusiastic investing public is only too happy to supply them with funds. As earnings fail to materialize however, and as the market becomes saturated with the shares of scores of new companies entering the field some of the enthusiasm beings to wane. Then comes the real struggle for survival as some companies fail and others are absorbed by more aggressive or more successful firms. We have seen the process

New performance records set by AMF



In 1959, American Machine & Foundry Company enjoyed the most successful year in its history. AMF's 26,077 stockholders and 13,475 employees can well be proud of this achievement. Furthermore, successes recorded in 1959 promise even healthier revenues and profits for 1960–AMF's 60th anniversary year.

A few of the highlights of 1959:

New Records — AMF sales and rentals totalled \$283,754,000–an increase of 23% over the year before.

Net Income Up 67% — AMF net income increased 67%–\$19,043,000 in 1959 compared with \$11,423,000 for 1958.

1959 Stock Split and Dividend Increase — AMF common stock was split two for one on October 16, 1959, and a dividend of 32½¢ per share on the new shares was paid in the fourth quarter–the equivalent of 65¢ per share on the old shares... a 30% increase. 1959 marked AMF's 33rd consecutive dividend year.

Backlog & Future Rentals Rise — AMF ended the year with a record backlog of \$158,372,000, which does not include future rentals from leased machinery.

Best Bowling Year — AMF Pinspotter installations far exceeded expectations.

R & D Expansion — AMF research and development facilities were expanded and the program broadened.

Record International Sales — AMF international sales volume increased 84% over the 1958 high.

All of these accomplishments, plus many more, are detailed in the 1959 AMF Annual Report. We will be pleased to send you a copy.

Morehead Patterson

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CHAIRMAN OF THE BOARD

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at work in the appliance field, television, rare metals and many others, including the automobile and the aircraft industries. Hence it pays to be aware that this struggle will occur before paying exhorbitant prices for any electronics stock.

For those who feel that at lower prices they must participate, there are such companies as GE, Westinghouse, Minneapolis-Honeywell, International Telephone & Telegraph, Robertshaw-Fulton and a few others. Each of these is a proven operator in its field with established records of profitability. END

Electronics . . . II — Radio and TV

(Continued from page 29)

earnings will climb to about $6.75 per share.

Magnavox saved itself in the competitive struggle by turning out only high priced, premium quality television and hi-fi sets. The company never aimed for the mass market, choosing instead to concentrate on large unit profits rather than small profits on many units of sales. From the point of view of survival in an extremely competitive environment the technique was successful. However, in terms of earnings growth Magnavox lags far behind Zenith. Sales, in fact, have advanced at a more rapid rate, climbing from $58 million in 1953 to $90 million in 1959. Per share earnings growth, however, has been small, rising from $1.15 to $1.51 in the same period.

In part this slower earnings growth reflects high research expenditures in connection with the company's defense activities. Perhaps now that military business has been built up to the point where it accounts for forty percent of revenues, these expenditures will begin to pay off in higher earnings. Investors would do well to wait and see, however.

Hoffman Electronics followed the same path as Magnavox. By building high quality television sets it managed to survive and to build up a substantial defense business. Nevertheless, growth to date has been nil in sales figures and only modest in earnings.

As the first company to build a solar energy powered radio, however, (Soloradio) Hoffman has established itself as a major factor in the space industry, and this may portend better things in the future. In the meantime, however, earnings will stil be closely tied to television set sales. For the year ahead, this should lead to some improvement, possibly to $1.75 or $1.80 compared with $1.35 in 1959. The company's long range outlook, however, is better than the near future.

Other Set Manufacturers Undergoing Change

The move into defense business by Magnavox and Hoffman is typical of the industry. **Philco,** which a few years ago was almost on the rocks, has made a strong comeback in the missile field, and has now successfully entered the computer industry. Radio and television set sales, however, still account for almost 50 percent of sales, while other household appliances bring in another 25 percent.

In 1960, if the projected 6% rise in appliance sales for the entire industry materializes, Philco should have a good year, on top of the recovery scored in 1959. Sales rose to $397 million last year and earnings climbed to $1.67 per share from only 61¢ in 1958. This year sales should jump again, possibly as high as $475 million, and earnings may approach $3.00 per share. At around 35, Philco is a reasonable businessman's risk type investment.

Motorola has scored impressively in the last two years, but unlike Philco, the shares are priced much too high for most investors. Always a major television and radio producer, Motorola has also been particularly successful in developing industrial electronics systems, such as the microwave systems used in the most advanced forms of police communications.

Its head start in this field has reaped high profits. In 1958 earnings declined a little to $3.80 per share, but last year they soared to over $7.00 and will probably

keep climbing to over $9.00 in 1960. Nevertheless, even if the current dividend of $1.50 should be increased, the stock, at 150, is in the stratosphere.

Admiral is another company that managed to survive the hot competition and now appears to be doing somewhat better. Defense business is still not too important, but this may work to the company's advantage in 1960 if television and appliance sales prove as strong as is now expected. Earnings may rise above $2.00 per share in 1960, a healthy rise from the $1.70 reported in 1959 and the 80¢ shown in 1956.

Broadcasting In Transition

Broadcasting and telecasting, the other end of the television set, enters 1960 under the cloud of the quiz scandals, payola, and a greater public awareness of the need for higher quality programming.

Columbia Broadcasting, which operates the nation's largest TV network continues to perform profitably and efficiently, but until the current congressional furor dies down there is no telling what new regulations will do to earning power.

In 1959, CBS had record revenues of $411 million and record earnings of $3.11 per share. If it can continue without too much new government intervention, revenues should rise in the year ahead and earnings could reach $3.50 per share.

American - Broadcasting Paramount, the third largest network after CBS and NBC also had record earnings of $1.85 in 1959 and should better its performance next year. However, ABC may be subject to more trouble from the government than its bigger competitors. Pleading poverty until now, the company has ignored some of its public welfare duties, and has filled its air with westerns and other forms of cheap programming. Whether stricter regulation will continue to allow this remains to be seen.

Summary

After a period of trying reshaping of the industry, the television and radio set producers appear to be staging a comeback. Better grade stocks, with one or two exceptions, have discounted prospects too far ahead, but opportunities may develop as the market moves lower. Most of the other issues are too speculative at the moment. END

Electronics . . .
III — Business Machines

(Continued from page 31)

tial shipments should be made, raising sales to new levels.

Burroughs, sagging under the weight of research and development costs, and a slowdown in conventional business equipment volume has had a poor earnings record in recent years. From a high of $2.35 per share in 1956, earnings dropped to 97¢ in 1958 and recovered only slightly to $1.02 in 1959. (The reported earnings of $1.62 per share include 54¢ of non-recurring profits and were not derived from operations.) In the year ahead, however, things will begin to look up.

Pitney-Bowes, on the other hand, is just moving into its problem stage. For many years the company had a virtual monopoly in

the mailing machine field, but that was broken recently by government order. However, it would have ended without a decree since Pitney-Bowes had not explored the new field of electronics deeply, while other companies were busily developing new machines that could sort mail electronically, even reading the addresses. Hence it was only a matter of time before the Postal Department would have to turn to these other manufacturers.

Pitney-Bowes is running hard now to redress the situation, but many years of heavy research lie ahead, indicating that earnings will be penalized well into the future. To finance its new endeavors, the company was forced to sell an additional 200,000 shares of stock to the public late last year, and more financing may be required before it is through. Plants are being expanded and modernized and research expenditures have been raised by 50 percent. Nevertheless, Pitney-Bowes now has the unenviable task of having to catch up in a field where it once was the undisputed leader.

In 1960, the combination of more efficient plants and a good backlog may push earnings ahead substantially, but that should be the last big earnings increase for several years. For long term investors, however, the market's disappointment with Pitney-Bowes showing may at the proper time provide an attractive buying opportunity.

Coming back to the progress side of the ledger, **Sperry-Rand,** after several years of unexciting earnings may be on the verge of better things. Sperry's Remington-Rand division was an early entry in the computer field with its Univac, but lack of follow through left the company far behind in sales. Recently, however, the company has developed a line of "solid-state" computers which are in good demand. Since there are orders on the books now for over 150 of these new machines, sales for this division should expand in 1960.

In addition, Sperry remains a major contributor to the space program, specializing in missile components and launching equipment. Profit margins have finally begun to widen, so that the rise in earnings to $1.45 in 1959 may be followed by further improvement in 1960. With sales probably climbing to $1.3 billion per share earnings could reach $1.75. At $24, Sperry is priced much more reasonably than most of the equipment makers.

Competition From Outside

One important complication for all of the business machine producers is the fact that other electronics producers are beginning to invade their preserve. Hence the competitive struggle will be broader than many had expected. Minneapolis-Honeywell has developed an important medium sized computer which has met with a high degree of success, while General Electric and RCA have also successfully entered the field.

Since no company has a monopoly on scientific brain power, it is a safe bet that other companies will also cast a covetous eye at the enormous potential of the office equipment field. Hence, before the process ends many of the smaller companies, such as Royal-McBee and Smith-Corona may wish they had followed Underwood's lead and left the field entirely.

Underwood has wiped out its initial investment in electronics and has gone back to the business it knows well — typewriters. In recognition of its potential in that field, Olivetti, the leading Italian producer of typewriters recently purchased a major interest in the company, and placed one of its vice presidents at the head of Underwood. A vast reorganization is now under way which will probably lead to profitable operations for Underwood this year. If so, it will be the first profitable year since 1955.

Summary

In the stock market office equipment shares have a wide variety of valuations. The companies with proven records of success, such as IBM sell at very high growth premiums. Others, such as National Cash Register and Addressograph - Multigraph, though not as richly priced still exceed twenty times earnings. In part of course, these ratios are justified. IBM certainly has an extraordinary record. Addressograph, though not primarily an electronic producer has been highly successful in both special-

ized machinery and paper business forms.

The high value for National Cash reflects its past dominance in the cash register field plus optimism about its future.

As for the other, such as Burroughs, Smith-Corona and the like, although they are reasonably priced, their futures are far less certain than the others. In view, therefore, of the high prices of the quality companies and the doubtful prospects for the lesser lights, investors should look for better value in more well rounded companies. END

Radio Corp. Of America

(Continued from page 35)

capital requirements will increase greatly. In 1959 the ratio of net working capital to sales was 22.8%, the lowest since 1950. However considerably higher earnings that would be possible with improved profit margins would go a long way to solving the problem.

Conclusion

Earnings in 1960 are likely to rise to $2.85, or 10% higher than 1959, with sales also up about 10%. Significant improvement in profit margins could be hampered somewhat over the next 2-to-4 years when it is hoped that the new computer division will break even.

However progress in color TV is more immediate, and the company's recently emphasized electronics business should grow, especially with new production facilities in the semi-conductor area.

There is little doubt that RCA is bent on holding its position of leadership in the rapidly growing electronics field. The future is one of unusual opportunity. END

Correction:

In the story on "Defense Expenditures and Who Will Get the Orders," which appeared in our issue of February 27, 1960, it was stated through a typographical error that the Air Force was scheduling $287 million for research and development of the Sky Bolt missile. The correct figure is $60 million.

Your Company Under The Out-Moded Anti-Trust Laws

(Continued from page 17)

obvious. However, few practical suggestions for such improvement have been made. Indeed, the most widely publicized recommendations for change in our antitrust policies would probably magnify existing problems rather than alleviate them.

This year, a new book, *Antitrust Policy*, by two Harvard professors, Carl Kaysen and Donald Turner, proposed giving antitrust an even more important role in our economy. It proposed a special statute designed to prevent "unreasonable market power," a special court to handle the cases and a special new agency, the "Industrial Reorganization Commission," to be responsible for prosecution.

► Last year, Senator O'Mahoney introduced a *bill in the Senate which would compel large corporations and unions to explain their proposed price and wage increases at public hearings before they went into effect.* Such a move would be tantamount to government price control, and price changes would not be set in response to free market forces. At the same time, such a bill, if enacted, would probably tend to discourage price declines, for companies would hesitate to risk price cuts when future increases could take place only at the cost of long and drawn out public hearings.

Common Sense the Answer

Proposals like these avoid the central faults of our present antitrust system. What is really required is recognition of a few essential facts and common-sense principles. *First of all, it needs to be recognized that bigness is not in and of itself badness.*

The business leader of today is a far cry from the robber baron of yesterday. The present managers of U. S. corporations have demonstrated capacity for exercising progressive industrial stewardship. Social responsibility, enlightened self-restraint and progressive labor and customer relations characterize most American corporations today.

The exceptions are limited in the extreme.

It needs to be recognized that current American competition is effective and workable. Even in the most concentrated industries, a progressive technology is at work. The fruits of the progressiveness are passed on to consumers in the form of lower prices, larger output and improved products. One need only examine briefly the performance of a giant corporation like du Pont to realize this all-important consideration. The number of new products that this corporation introduces in one year is counted in the hundreds. As a matter of policy, prices to consumers are reduced as markets are enlarged.

The rapid growth of the Nash Rambler provides another important illustration of vigorous competition in a concentrated industry. Rambler has succeeded in carving out for itself, through ingenuity, an important place in the automobile market.

Furthermore, it ought to be fully recognized that there are automatic checks and balances working within the U. S. economy which insure the continuity of competition. A firm's market power is frequently restrained, not only by competitors within its own industry, but by its customers and suppliers.

Any accretion of monopolistic power by one firm offers inducement to both suppliers and customers to develop the power with which they can defend themselves against exploitation. As an example, concentration in the steel industry will stimulate counteracting influences among the industry's customers, such as automobile manufacturers, as well as among its suppliers, such as steel laborers. The result is a balance of power within the economy which provides for smooth and efficient functioning.

Admittedly, it would be difficult to enact these essential principles into law. However, it would not be impossible. Moreover, such principles could be adopted immediately by the Justice Department as part of its working policy. The first step in any adoption of change is through an aroused and enlightened citizenry — in this case, mainly business-minded citizens.

Business is now paying a high price for antitrust enforcement. It should be prepared to work hard for necessary reforms in its own interests.

Editor's Note: Is the Government about to recognize the strategic character of the railroads by giving the green light to the mergers that are necessary today in order to maintain a healthy rail transportation system? Such commonsense action would be very heartening to the citizens of this country who have been suffering greatly from the lack of decent transportation, going back and forth from their jobs to the suburbs in the face of crowded highways and long delays which extend their travelling time from two to four hours a day.

These mergers are bound to cut costs and make it easier for the roads to compete with the subsidized trucks, buses and air transportation. In fact, there should be a general loosening up of the outdated laws to which the railroads are still subject and from which they and the general public are suffering greatly. END

Capital Spending Provides First Major Optimistic Development

(Continued from page 10)

higher levels than the depressed bookings of 1958, have been running well below 1956 and early 1957 levels.

Machine tool builders' backlogs are far from large, and recently have tended to contract a little.

The **durable goods** section of industry, the most volatile area of our economy, has ample capacity for producing goods at a considerably higher rate than recent all-time record highs. During the period since business recovery began in the Spring of 1958, shipments of durable goods have kept close pace with new orders. As a result, producers have not accumulated any important backlog of unfilled orders to necessitate plant expansion. In fact, the ratio of durable manufacturers' unfilled orders to sales or shipments is extremely low.

Machinery manufacturers' unfilled orders, usually an important clue to the trend of capital spending, totaled $17.8 billion at the beginning of this year as compared with $16.0 billion on January 1, 1959, but $20.1 billion on January 1, 1957, on the eve of the big 1957 capital spending bulge.

The increase of 11 percent in the orders backlog from the first of last year to the first of this year was compatible with the rise in capital spending from $30.6 billion, seasonally adjusted annual rate, in the first quarter of 1959 to the original indication of $34.4 for the first quarter of this year, recently upped to $35.3 billion.

Although new orders for machinery late last year showed a larger gain, about 18 percent, over a year earlier than did unfilled orders, the volume of new orders booked had shown a tendency to taper off late in the year.

In retrospect, it is apparent that machinery manufacturers, like so many manufacturers of other goods, have been able to speed up their production processes to such an extent that manufacture and shipment now can be made very quickly. Consequently, the volume of unfilled orders is less meaningful than formerly. This is quite unlike the situation only a few years ago, when buyers of machinery often had to wait as much as 18 months for delivery.

This ability of manufacturers to produce and ship very quickly has its faults as well as its virtues, from the standpoint of the economy as a whole. Formerly, when new orders fell off, manufacturers usually had a sufficiently large backlog of unfilled orders to be able to continue to operate at high levels for many months. Now, when new orders fall off, manufacturers must begin to reduce their production schedules rather quickly in line with the new business coming in. *As a consequence, it would seem, our economy has become subject and may become increasingly subject to more swift and more sharp upward and downward adjustments.*

Manufacturing, and this is particularly true of durable goods manufacturing, is the most dynamic and also the most vulnerable area of our economy.

Over the years, the largest percentage increases in capital spending from year to year, as well as the largest percentage declines,

centage increases in capital spending from year to year, as well as the largest percentage declines, have occurred in the manufacturing segment of business.

According to the SEC-Commerce Department report, new plant and equipment expenditures by manufacturers will rise 25.4 percent this year, as compared with a rise of 13.7 percent for all business expenditures.

Spending by durable goods manufacturers will rise 32.7 percent, it is estimated, while soft goods producers will up their expenditures by 18.7 percent.

► In 1947, when all lines of business were hastening to overcome the obsolescence stemming from World War II, manufacturers upped their capital spending by 28.2 percent. In 1951, under the impact of the Korean War, the increase was a whopping 44.8 percent, and 1956 witnessed another big gain of 30.7 percent.

► In the recession years of 1949, 1954, and 1958, capital spending by manufacturers was reduced 21.8 percent, 7.3 percent, and 28.4 percent respectively.

► Throughout most of the post World War II period, up until 1957, the emphasis was on expansion of plant capacity. In the ten-year period from 1947 through 1956, new plant and equipment expenditures by American manufacturers totaled $104.3 billion.

► In the four-year period from 1957 through 1960, manufacturers will lay out $54.6 billion, assuming that spending this year equals the estimated $15.1 billion.

In these latter years, the emphasis has been less on plant and more on equipment, and this tendency will be accelerated this year.

Capacity Adequate

Over-all manufacturing capacity is adequate to meet our needs for some years to come. There no longer is any problem of inadequate capacity, such as plagued the earlier postwar years.

Nevertheless, manufacturers are continuing to expend large sums on plants. New factories are going up in the South, the Southwest, and the Far West, the areas of dynamic population growth.

Huge sums are being spent to modernize old plants.

► *Scientific developments in the field of manufacturing are proceeding so rapidly that much of the equipment installed in the earlier postwar years already is obsolete. The rising rate of obsolescence in equipment is pressuring manufacturers hard to keep up.*

► This year, manufacturers are expected to spend about $2.4 billion for new plants, about 20 percent more than last year. The bulk of the remaining $12.7 billion from estimated total expenditures of $15.1 billion will be spent for new equipment.

Automation Pressing Hard

Like many of us, you undoubtedly have been hearing of numerous instances of imported products or components being offered in our markets for considerably less than comparable articles produced here.

• Factory wages abroad are lower than wages here. This may be an important factor in the price differential between imported and domestically-produced goods in some instances. There is absolutely no doubt that factory wages have risen all out of line since the end of the war, nurtured initially by world-wide shortages of goods and huge export demands upon us, by the impact of the Korean War, and by the short-sightedness of the labor monopolists with their demands for ever higher wages regardless of productivity.

• *However, the wage differential may be much less important than is generally believed.* Industry abroad has had to be practically rebuilt since the end of the war. Our Government has contributed billions of dollars in foreign aid to help rebuild industrial plants destroyed during the war and, in addition, has contributed generously to helping some of the more backward nations to become industrialized.

• Now, our generosity is coming home to haunt us. *For, foreign countries naturally installed the latest equipment, which put them far ahead of our averages from the standpoint of efficiency.* Furthermore, we understand, industry abroad has taken even more rapidly than industry in the United States to "automation", the completely or almost completely automatic production processes, electronically controlled.

In an "automated" plant, it makes little difference whether the few workers employed are paid low wages or high wages. The difference between $3 a day and $30 a day amounts to only a tiny difference in the unit costs of production.

U.S. Industry Fighting Back

Competition cannot be met by running away from it. Recourse to higher tariff walls would eliminate the possibility of American industry regaining the export markets it has lost in the past few years to foreign industry, and well might force some presently friendly nations into close economic and political alliances with the Communist countries.

Quite obviousy, American industry is in process of going all out to modernize its equipment and to "automate" when and where it is possible.

This is not a one-year process. It will go on for a long time. Since the high cost of new equipment must be more than offset by the savings in labor, it would seem to us that we are entering or already are in a period when the cost of goods will be forced progressively lower through a combination of contracting production costs here and foreign competition.

In the final analysis, this would be deflationary, of course, in comparison with the almost steady price rises of the past 25 years or so.

► As automation proceeds, it is highly doubtful that the labor unions will be able to exert the monopolistic controls that have characterized the postwar period. Union membership is highly concentrated in factories, where the number of workers engaged has been declining almost steadily for a number of years while output has been rising.

Other Business Spending

For the first time since 1956, all of the major divisions of business are expected to increase their capital expenditures this year.

► Capital spending in mining is estimated at 1.7 percent higher in 1960, in transportation at 7.3 percent higher, and in public utilities at 7.0 percent higher. "Commercial and other", which includes trade, service, finance, communications and construction,

is estimated at $11.7 billion, a gain of 7.2 percent over last year.

The wide diffusion of this year's capital expenditures would seem to suggest that we can anticipate more buoyancy in the economy than if expenditures were more highly concentrated.

END

Advantage For U.S. Companies Under Foreign Flags Point Up Futility Of Boggs Bill

(Continued from page 14)

lifted to 52%, equivalent to the domestic rate. If the Boggs Bill, incorporating this provision, were to pass and the FBC form of organization grew popular, a hue and cry might soon arise that these domestic trade subsidiaries did not enjoy equal opportunities with foreign-base corporations and joint ventures. The next step could well be an attempt to force the "gross-up" upon foreign subsidiaries, raising their over-all tax precisely to the domestic level and depriving them of the limited advantage to which their foreign status should entitle them. *Thus, the final result of a bill ostensibly aimed at promoting American investment abroad could be a new and heavy burden upon present methods of conducting foreign operations.*

In the recent past the flow of American capital into productive enterprises in foreign countries has been going on at an unprecedented rate. The profit motive has, of course, supplied the impetus for this development. Is it wise to initiate any threat of a new tax penalty against such profits?

Fallacious Theory of "Protection" Does Not Jibe with the Facts Today

The philosophy embodied in this legislation suggest a reexamination of methods of conducting business abroad, from a national rather than a company point of view. Representative Boggs asserted that American corporations should be entitled to go abroad directly, "to fly the American flag", to enjoy the protection of the American government. He stresses the idea of equity with foreign-base corporations. And, of course, resistance to the Soviet thread is worked in as a final argument.

But what is the protection of the American flag worth today? And what form of organization of American business is most acceptable in foreign countries?

No thinking person wants to see the return of the imperialistic era of the turn of the century, when gunboat followed salesmen, or contingents of marines were rushed ashore to avenge fancied insults to American dignity. But it would perhaps be reasonable to expect that petty dictators would not be invited to insult us wantonly, seize American property without plausible excuse, and callously disregard their contracts with our nationals. The fact is that these provocations are being accepted suppinely. The protection of the flag is apparently worth very little, and this argument can be dismissed as merely rhetorical.

More important is consideration of methods of conducting American-sponsored operations in friendly countries. This magazine has printed frequent articles on this timely subject. Space does not suffice for repetition, but much evidence suggests that the preferred way of doing business in foreign countries is by domiciled subsidiaries. *It is often more advantageous still to organize these as joint ventures, which become actual as well as legal "citizens" in their respective countries.* Pfizer's motto, "To go international, go local", is excellent advice.

Common Sense Helpfulness

Thus, the locally organized subsidiary or joint venture is not merely good business; it also promotes many important objectives of our foreign policy. It encourages local capital formation and stimulates managerial talent. It avoids offense to sensibilities in nationalistic countries and makes "dollar diplomacy" less obtrusive. It exemplifies a very valuable form of voluntary cooperation. Any suggestion of levying penalties against this form of foreign investment organization can only be harmful.

Companies with Large Foreign Sales

The accompanying table lists a small sample, selected at random, of companies deriving a substantial proportion of their sales dollar from foreign sources, and indicates the form of organization followed. In nearly all cases this is the wholly or substantially owned foreign subsidiary, although joint ventures are becoming increasingly common. Several of these companies have international divisions, responsible both for export sales from domestic plants and for the supervision of foreign subsidiaries. Despite the growth of the Common Market idea in Europe, markets in many other parts of the world remain too high fragmented to justify factories, and it is still more economical to supply such localities from the United States or, increasingly, from some third country where a factory has been built.

A few companies, like Procter & Gamble (in Cuba) or Budd (in France) license foreign manufacturers to use their tradenames or designs, but this is essentially a transitional phase.

Despite some inevitable risks and the necessity for careful discrimination among countries, investment abroad is already highly remunerative for many American companies. And while it is going to prove more and more difficult to export American-made products, opportunities for the profitable employment of American capital in foreign countries remain almost unlimited. This should not merely work to the advantage of alert investors but will simultaneously serve important national objectives.

END

Answers to Inquiries . . .

(Continued from page 44)

doubtful. The annual dividend rate is $1.00 per share. We would suggest eliminating this issue from your holdings with the thought that funds can be utilized more productively in attractive stocks at lower market levels.

National Airlines

"Would it be your advice to average on this stock for the long pull?"

V. J. L., Bloomfield, N. J.

National Airlines is meeting with increasing competition, especially on the major New York-Miami route. However, it may obtain compensating new routes in other areas. While earnings for the fiscal year ended June 30,

1959 amounted to $1.42 per share, as against a deficit of 54 cents for the year previous, the company recently reported a deficit of $1.34 per share for the 6 months ended December 31st (as against a profit of 45 cents a year previous). In other words, the recent earnings trend has been unfavorable. The stock has declined substantially from its high last year of 29⅜ to the current price of about 14, thus reflecting at least a good part of the unfavorable factors. We would suggest temporary retention of this issue. However, we would not advise averaging or new purchase as the stock is semi-speculative in character.

Young Spring & Wire Co.

"I would like information on Young Spring & Wire."

C. P. E., Washington, D.C.

Young Spring & Wire, originally a manufacturer of automobile upholstery springs, has in recent years diversified into road building and construction machinery, equipment for farm and commercial vehicles, electronic communication equipment, and aircraft and missile parts. However, except for a moderate increase in the 1959 fiscal year, earnings have been in a downword trend with $3.45 reported in 1956, $2.79 in 1957 and $1.82 in 1958. While $2.01 earned in 1959 showed a modest improvement, it is only a partial recovery of the former earning power. We believe that this stock carries substantial risk and suggest its sale.

Textron, Inc.

"Textron recently reported earnings gain of about 44%. Management is aggressive. For a person not dependent on income, but interested in capital gains, does this stock appear a good speculation?"

C. G. H., Dallas, Texas

Textron, Inc. is engaged in such a wide variety of activities that efficiency of management is difficult to gauge. With respect to earnings, the report for the 52 weeks ended January 2, 1960, included a $1,110,000 gain from sale of assets and a $2,373,000 profit from sale of Textron Electron stock, as well as a substantial tax loss carry-over. Without benefit of these items, earnings were substantially lower than the $3.61 per share indicated. In our opinion, this issue is highly speculative and we would not recommend purchase. Also, in view of prevailing uncertainties, we are not making any new purchase recommendations at this time.

For Profit and Income

(Continued from page 37)

regard the stock as a sound value for conservative accounts.

Piper Aircraft

Profit of this maker of private planes reached a record $3.00 a share for the fiscal year ended last September 30. In the December quarter, first quarter of the present fiscal year, it gained 30% from a year earlier. Sales are officially put at $40 million this year, against $34.2 million last. Net could approximate $4.00 a share. The $1.00 dividend may be raised. Stock extras (5% last December) probably will continue. The management looks for sales around $70 million by its 1964 year. If margins approximated those of recent years, net would be over $6.50 a share. Now at 55, the stock has had a big rise; and no more than a moderate price-earnings ratio could ever be justified is this situation. There is more to be said for retaining holdings on the basis of a favorable trend than for new buying at current levels.

Conservative Value

With over 400 stores in some 36 states, Walgreen is a major retailer of drugs and the usual broad variety of familiar drugstore items. Emphasis on expansion in suburban shopping centers — plus closings of smaller, less profitable stores — has begun to pay off in recent years. From $1.90 a share in 1954, profit rose each subsequent year to a record $4.32 a share for the fiscal year ended last September 30. A current-year gain is likely, perhaps to around $4.50-$4.60 a share. Until the expansion program levels off, dividends may be held to the present conservative $1.60 rate, plus stock extras (3% paid last year). Now around 51 in a 1959-1960 range of 55½-43½, the stock is reasonably priced and is a conservative holding. END

Book Review

The Intelligent Investor

Second Revised Edition

By BENJAMIN GRAHAM

Since its first appearance, this standard investment guide has won unreserved praise from financial authorities, and has gained steady acceptance by the public. Today, with more and more people becoming investors, Benjamin Graham's shrewd advice for both amateurs and professionals will be even more welcome.

Although the fundamental principles remain the same, the author—in line with his own advice that investment theory and practice must be constantly adapted to economic conditions—has again extensively revised his book. He recommends significant changes of policy—for example, U. S. Savings Bonds, once attractive, have lost their relative advantage. A decade ago, Mr. Graham's emphasis on common stock policy contrasted sharply with established attitudes, and he was proved correct; now, his advice on conservative measures is especially noteworthy.

The book takes into account the needs of both the "defensive" and the "enterprising" investor, outlining the principles of stock selection for each, and stressing throughout the advantages of a simple portfolio policy.

Harper $4.95

Helping You to ATTAIN and RETAIN

FINANCIAL INDEPENDENCE

(Important — To Investors With $50,000 or More!)

Most investors are aiming for financial independence... whether they hope to arrive at their goal in five, ten or twenty years.

We concur in their confidence that wise and timely investment of their capital can make this dream a reality . . . for despite temporary readjustments our nation is forging ahead in a new era of amazing scientific achievement, industrial advancement and investment opportunity.

In 1960 and the coming years, we will see marvelous and practical progress in the conquest of space, in attainment of plant automation, in harnessing of atomic energy . . . with a host of new products, materials and techniques emerging.

These new forces will have profound investment significance for they will invigorate many companies — but often at the expense of less able competitors. TO YOU, as an investor, this adds up to an increased need for continuing investment research and capable professional counsel.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account... advising retention of those most attractive for income and growth... preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1960 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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